APPENDIX 4E
Preliminary Final Report

AUSTAL LIMITED

FOR THE YEAR ENDED 30 JUNE 2013

1. The reporting period is from 1 July 2012 to 30 June 2013. The previous corresponding period is 1 July 2011 to 30 June 2012.

2. Results for announcement to the market.

				$A'000
2.1	Revenue from ordinary activities	up 38.3%	to	902,813
2.2	Profit (loss) from ordinary activities after tax	up 224%	to	35,742
2.3	Net profit for the period attributable to members	up 225%	to	35,870

2.4 Dividend distributions

No dividend is payable with respect to the year ended 30 June 2013.

2.5	Record date for determining entitlements to the dividends	N/A
2.6	Explanation of figures in 2.1 to 2.4 that may be required	Refer to attached Annual Report pages 6 - 7.
3.	Statement of comprehensive income with notes	Refer to attached Annual Report pages 20 and 25 – 69.
4.	Statement of financial position with notes	Refer to attached Annual Report pages 21 and 25 – 69.
5.	Statement of cash flows and notes	Refer to attached Annual Report pages 22 and 25 – 69.
6.	Statement of changes in equity	Refer to attached Annual Report page 23 - 24 and 25 - 69
7.	Details of dividend or distribution reinvestment plans	N/A
8.	Details of dividends or distributions	N/A
9.	Net tangible assets per ordinary security	
	Current period (cents/share)	114.0
	Previous corresponding period (cents/share)	144.5
10.	Control gained or lost over entities during the period	Refer to attached Annual Report page 61 and 69.
11.	Details of associates and joint venture entities	N/A
12.	Other significant information	Refer to Review of Operations pages 6 - 7 of attached Annual Report.

13. Accounting standards used by foreign entities

The financial statements of subsidiaries are prepared using consistent accounting policies for the same reporting period as the parent company. The foreign entities including Austal USA prepares their accounts under accounting standards that are equivalent to International Financial Reporting Standards.

14. Commentary on the result

14.1 Earnings per share

Current period – basic	12.03 cents
Previous corresponding period – basic	4.62 cents
Current period – diluted (refer to page 40)	12.01 cents
Previous corresponding period – diluted (refer to page 40)	4.61 cents

14.2 Returns to shareholders including distributions and buy backs

No dividends were declared with respect to the year ended 30 June 2013.

14.3	Significant features of operating performance	Refer to Review of Operations pages 6 - 7 of attached Annual Report.
14.4	Segment results	Refer to attached Annual Report pages 35 - 37
14.5	Trends in performance	Refer to Review of Operations pages 6 - 7 of attached Annual Report.
14.6	Other factors affecting the results in period or future	Refer to Review of Operations pages 6 - 7 of attached Annual Report.
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

CONTENTS

02 Chairman's Report

04 Chief Executive Officer's Report

06 Review of Operations

08 Directors' Report

20 Consolidated Statement of Comprehensive Income

21 Consolidated Statement of Financial Position

22 Consolidated Statement of Cash Flows

23 Consolidated Statement of Changes in Equity

25 Notes to the Consolidated Financial Statements

- 01. Corporate Information
- 02. Summary of Significant Accounting Policies
- 03. Revenue and Expenses
- 04. Operating Segments
- 05. Income Tax
- 06. Earnings Per Share
- 07. Dividends Paid and Proposed
- 08. Cash and Cash Equivalents
- 09. Trade and Other Receivables
- 10. Inventories
- 11. Prepayments
- 12. Property, Plant and Equipment
- 13. Intangible Assets
- 14. Derivatives
- 15. Trade and Other Payables
- 16. Interest Bearing Loans and Borrowings
- 17. Government Grants
- 18. Provisions
- 19. Other Liabilities (Current)
- 20. Contributed Equity and Reserves
- 21. Financial Risk Management Objective and Policies
- 22. Financial Instruments
- 23. Commitments and Contingencies
- 24. Related Party Disclosure
- 25. Events after the Balance Date
- 26. Auditor's Remuneration
- 27. Key Management Personnel Compensation
- 28. Share Based Payment Plans
- 29. Parent Entity
- 30. Business Combination

70 Directors' Declaration

71 Corporate Governance Statement

75 Independent Audit Report to the members of Austal Limited

77 Shareholder Information

78 Corporate Directory

On behalf of the Board of Austal Limited, it is my pleasure to present to you the 2013 Annual Report.

The past 12 months represented a year of transformation for Austal. In that time:

- Critical steps were taken to improve Austal's debt position and balance sheet through a $77.9 million capital raising.
- A new syndicated bank facility agreement was executed subsequent to 30 June 2013 which extended maturity until 31 December 2015.
- The new bank facility agreement had not been executed at reporting date and therefore the debt associated with the new facility has been designated as a current liability. The debt was reclassified as a non-current liability as of 19 July 2013.
- Operational improvements were made at our US shipyard, which translated into improved margins and profit growth for the year.
- Funding was confirmed for two more Littoral Combat Ships and the final Joint High Speed Vessel under our existing contracts with the US Navy.
- First-in-class *Cape St George* was delivered to Australian Customs and Border Protection, and construction of the other Cape Class Patrol Boats at our base in Henderson, Western Australia ramped up.
- The Philippines Shipyard Operation was fully mobilised, with the first vessel delivered in December 2012.
- The Service and Systems Division was restructured to align with current work and anticipated opportunities.

The Chief Executive Officer, Andrew Bellamy, will provide more detail in his report on the operational achievements for the year, as well more detail on the strategic direction and outlook for Austal.

Capital raising

The $77.9 million Entitlement Offer, at a material discount to the share price, was a challenging but critical decision during the year which significantly improved Austal's debt position and balance sheet. The Entitlement Offer was well supported by existing shareholders and a number of new shareholders who I welcome to the register. I wish to thank shareholders for their support and I look forward to sharing in the Company's future successes with you.

Financial results

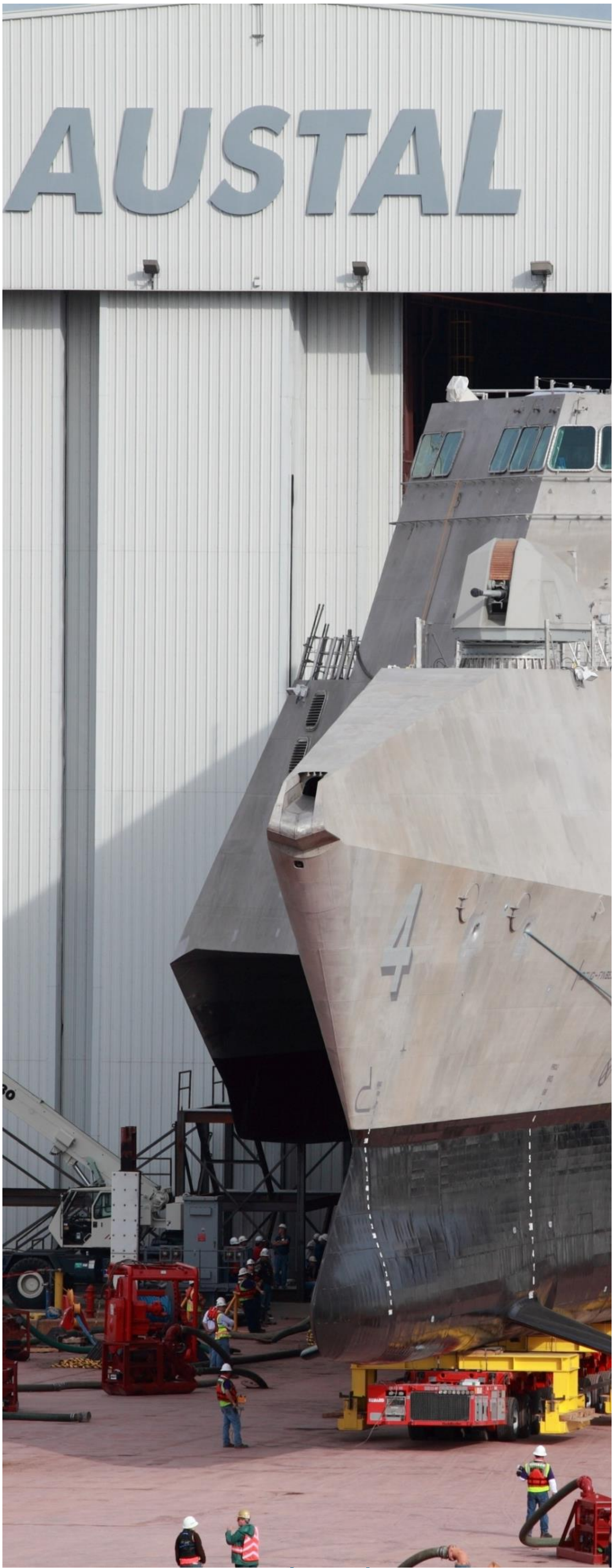
Management and staff delivered operational improvements and efficiencies across the business which were a key driver in delivering significantly improved earnings before interest, tax, depreciation and amortisation (EBITDA) result of $62.6 million and net profit after tax of $35.7 million which were both in line with market guidance. The profit result was positively impacted by the recognition of $11.0 million of non-cash research and development tax credits from prior years.

Reconciliation of EBITDA:

Year ended 30 June 2013	$'000
Profit before income tax	26,726
Finance costs	13,571
Finance income	(2,231)
EBIT	38,066
Depreciation	21,914
Amortisation	2,595
EBITDA[1]	62,575

1. EBITDA is a non-IFRS measure. The information is unaudited but is extracted from the audited financial statements.

The operational improvements and efficiencies implemented across the business were sustained throughout the year. For example, the lessons learned in the construction of the first-in-class Joint High Speed Vessel, USNS *Spearhead*, were applied to JHSV 2 and improved processes implemented across the entire JHSV program. This has driven ongoing margin growth at our US shipyard.



Meanwhile, financial performance from our Henderson shipyard in Western Australia improved as we delivered the first vessel in the $330 million contract to design, construct and service the Cape Class Patrol Boats.

Board and senior management

Austal Deputy Chairman John Poynton, AM, resigned from the Board of Directors in June to devote more time to his other business and not-for-profit activities. John joined the Board in 1998 and helped Austal to expand from being a Western Australian fast ferry builder to include international operations and significant defence contracts and capabilities. In addition, finance executive Michael Atkinson announced his retirement in June following 23 years with Austal, and as such resigned from his role as Executive Director. I wish to thank both John and Michael for their dedication and contribution to the Company over an extended period.

Austal has commenced a process to identify and appoint a new non-executive director following these changes, specifically targeting candidates who have solid international and commercial experience. In addition, Austal promoted Greg Jason as Chief Financial Officer in January. Greg was previously Chief Operating Officer of Austal's Asia operations, and made a significant contribution to the successful acquisition and activation of our Philippines shipyard. He worked closely with Michael over a six month period to ensure a smooth transition to CFO.

At Austal's US operations in the year, we welcomed Rear Admiral USN (Retired) John "Dugan" Shipway to Chair the Board of Austal USA. Rear Admiral Shipway's appointment followed a distinguished naval career, including 35 years in the US Navy and senior management roles in naval shipbuilding and support. Austal also promoted Craig Perciavalle to President of Austal USA, after previously working as Senior Vice President of Operations. Their extensive experience will help to ensure our US shipyard delivers Navy contracts efficiently and effectively, moving into serial production of vessels that the US Navy regards as crucial to its future operations.

Remuneration report

The Board of Directors appreciates that there were concerns with the 2012 Remuneration Report, reflected in the voting at last year's Annual General Meeting. Your Board has reflected on shareholder feedback on remuneration and has taken steps to ensure that these concerns have been addressed. Key decisions made by your Board include:

- Reducing the number of executives that are entitled to participate in the long-term incentive plan (LTIP)
- The allocation of performance rights approved by shareholders at the FY2012 AGM for the CEO was subsequently not confirmed by the Board in FY2013
- Clearly identifying the performance measures used for the LTIP, with a strong bias towards return on invested capital (ROIC) and total shareholder return
- Short-term incentives are clearly linked to the delivery of performance criteria over a twelve month period, principally EBIT and Cash

We encourage shareholders to read the Remuneration Report to better understand the changes and approach your Board has taken to remuneration.

Outlook

The significant steps we took to transform Austal in the year have placed the Company in a stronger position to deliver on our significant order book and progress the operational improvements we have made. The US Navy funded an additional US$825.7 million of work in the 12 months, taking our order book to $2.6 billion as at 30 June 2013. This secures revenue through to 2017. With a record amount of work in hand, our focus is to deliver prudent cash management and continue to drive operational improvements across our businesses, with a long-term view to return dividends to shareholders.

I would like to take a moment to acknowledge our employees for their loyalty and hard work during the year. The achievements we made would not have been possible without their professionalism and dedication. And to shareholders, thank you for your ongoing support of Austal during the year. After a difficult decision in the capital raising, I am pleased that we have delivered on the operational and financial performance to drive shareholder value, and your Board will focus on continuing to achieve this objective.

John Rothwell AO
Chairman

Austal delivered significant operational improvements which translated into improved profitability for the Group.

Operational improvements

Management's focus was to implement operational improvements to deliver a turn-around in operating profit. Improving margins at our state of the art shipyard in the US where Austal is contracted to construct US$5 billion worth of Littoral Combat Ships (LCS) and Joint High Speed Vessels (JHSV) for the US Navy was the primary driver in improved profitability for the Group. It is pleasing that management and staff successfully implemented lessons learnt from the construction of the first-in-class JHSV. Austal delivered JHSV 1 and JHSV 2 to the US Navy and JHSV 3 was launched. LCS 4 performed sea trials during the year in preparation for delivery in FY2014. Construction of LCS 6, 8, and 10 progressed well.

Operational improvements at our Australian shipyard delivered a break-even result after a period of losses, as production of the Cape Class Patrol Boats (CCPB) ramped up. The $330 million contract to design, construct and support these vessels for Australian Customs and Border Protection underwrites work at our Australian shipyard in Henderson until the first half of FY2016. Delivery of *Cape St George* (CCPB 1) and laying the keel on CCPB 2 were the highlights of the year.

Meanwhile, our expansion into the Philippines was successful, returning a strong profit in its first full year of operation. Repositioning the construction of commercial vessels to the Philippines has ensured that Austal can retain a competitive position in the market. The Philippines operation mobilised 476 employees, delivered the first vessel, and progressed in the construction of an 80-metre commercial ferry for a repeat customer.

A number of improvements were made to the Service and Systems division. The organisation was re-structured to a geographical basis in order to improve efficiencies, drive margin growth, and alignment to work opportunities. The service base at Henderson was consolidated into the nearby shipbuilding facility, whilst the service base in Spain was closed, reflecting the challenges in the economies of Spain and Europe. Meanwhile, Austal substantially expanded its service capability in Darwin through the acquisition of Hydraulink NT and its associated business KM Engineering, in recognition of the growing significance of the Asia-Pacific region to US and Australian naval forces.

Strategy

We made significant progress in implementing the strategic plan, which included reducing gearing through a reduction in net debt to strengthen the balance sheet. The order book was maintained at $2.6 billion following appropriation of funds in line with US Navy contracts. This secures work through until 2017 with two additional LCS and one JHSV funded in the year.

Our strategy is clear for the year ahead. Austal will continue to improve margins in the US through operational efficiency. Australian Operations will expand to deliver the Cape Class Patrol Boat contract and target opportunities for domestic and export defence contracts. Technology transfer to the Philippines Operation will continue, and capacity will be expanded in line with market potential. All three business units will pursue service and systems opportunities from their well established shipbuilding operations.

A prudent cash management focus will ensure that costs and inflows are aligned. This will enhance Austal's ability to deliver on the record amount of work in progress and strategic objectives.

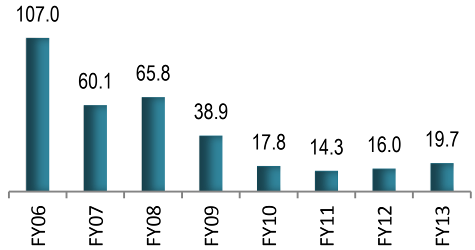
Safety

Safety remains our equal priority with productivity and quality. I am focused on achieving change across the Company without sacrificing our commitment to providing a safe environment for our employees, customers and visitors.

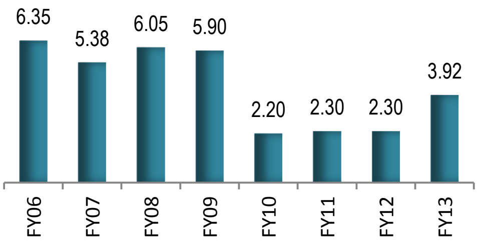
We are actively and progressively moving Austal to a learning culture and analyse our opportunities for improvement from a point of understanding how things happen rather than why. It is disappointing to report an increased Lost Time Injury Frequency Rate in FY2013. We are increasing our focus on training in recognition of a large influx of new employees in the Philippines and US operations.

Our goal of ZERO Harm means no injuries to anyone, ever and while aspirational remains a target to strive for.

Austal reports safety performance in accordance with AS1885.1.



Medical Treatment Injury Frequency Rate
(per million hours worked)



Lost Time Injury Frequency Rate
(per million hours worked)

People

A key part of our high performance culture is ensuring that Austal is a great place to work and that we view the capability of our people as our primary source of competitive advantage.

The people of Austal have achieved a great deal over the last year and I would like to acknowledge the outstanding contribution and commitment of all Austal employees, contractors, customers and partners during 2012/13 on behalf of the leadership team.

Our Values of Excellence, Customer, Integrity and Teamwork have been the basis for many tangible and sustainable business successes throughout the year.

Outlook

Austal is better positioned to deliver on the $2.6 billion order book as a result of improved margins and strengthening the Company's balance sheet in FY2013.

We will sustain the operational improvements and margins, delivering on our two major contracts for the US Navy, the LCS and JHSV. We expect two LCS to be funded in FY2014 as per the contract. The US Navy has demonstrated strong ongoing support to the high performance, low-cost LCS despite sequestration. Austal is well positioned to win new US Navy construction and vessel support contracts.

The translation of profits from our US operations are directly impacted by the A$/US$ exchange rate. We could expect to see a benefit in profit translation with markets forecasting further weakening of the A$. A weaker A$ also improves the international competitiveness of our Australian business.

We will continue to improve productivity in our Australian operations as we transition efficiency production of the remaining Cape Class Program. Opportunities exist to construct similar vessels for domestic and export defence markets.

We will continue to transfer technological capabilities to the Philippines Operations whilst we pursue new commercial contracts building on a successful maiden profit.

Our Service and Systems products have been developed in preparation for deployment to US and Australian defence vessels.

Future success will be built upon improving operating margins, implementing production efficiencies, and a prudent cash management focus. These measures will leave Austal best placed to deliver on the record amount of work in progress and strategic objectives to deliver returns to shareholders.

Andrew Bellamy

ANDREW BELLAMY
EXECUTIVE DIRECTOR AND CHIEF EXECUTIVE OFFICER

Austal reported a net profit after tax of $35.7 million in FY2013, compared to $11.0 million in FY2012. FY2013 earnings before interest, tax, depreciation and amortisation was $62.6 million for the year compared to $35.4 million in FY2012. The improvement in earnings was driven by growth in margins, particularly at our US shipyard, where we implemented the lessons learnt from the challenges on the first-in-class Joint High Speed Vessel (JHSV 1) and improved processes across the shipyard.

Revenue for the year grew by 38 per cent from $653.0 million in FY2012 to $902.8 million. The US operation was the largest contributor to revenue, delivering $749.4 million (FY2012: $570.3 million) and $39.2 million in earnings before interest and tax (EBIT) (FY2012: $15.8 million) as Austal continued to perform work on its major LCS and JHSV contracts for the US Navy. Performance at our non-US operations also improved, with the Australian division returning to a break-even EBIT after a period of losses (FY2012: $13.7 million loss) and the Philippines Operation reported a $5.0 million EBIT (FY2012: $0.8 million loss), its maiden profit in its first full year of operations. The Service and Systems division, which was restructured in the year, delivered an EBIT loss of $0.5 million (FY2012: $0.4 million). Austal's net debt was reduced to $132.9 million (FY2012: $159.7 million) after $77.9 million in funds from a capital raising were used to reduce indebtedness and strengthen the balance sheet.

Financial summary

Year ended 30 June	2013 $'000	2012 $'000
Revenue*	902,813	652,996
Depreciation, Amortisation & Impairment	(24,509)	(18,869)
EBIT	38,066	16,577
Net Interest (Paid)/Received	(11,340)	(4,020)
Operating Profit Before Tax	26,726	12,557
Tax (Expense)/Benefit	9,016	(1,514)
Operating Profit After Tax	35,742	11,043
% EBIT/Revenue	4.2	2.5
Basic Earnings Per Share (cps)	12.03	4.62
Net Assets	407,187	277,047
Return on Equity (%)	8.8	3.9

*Excludes other income

A financial breakdown for each business unit has been included below, including IFRS and non-IFRS information. This information has been extracted from the audited financial statements and included in order to demonstrate growth across the primary segments.

US Operations

	FY2013 ($m)	FY2012 ($m)
Revenue	749.4	570.3
EBIT	39.2	15.8
EBIT margin (%)	5.2%	2.7%
PBT	23.5	8.5

Austal's US operations continued to be the biggest contributor to earnings. Earnings before interest and tax from Austal's US operations was $39.2 million on $749.4 million in revenue. This was a 148 per cent increase on the $15.8 million EBIT reported in FY2012. Importantly, operational improvements and the implementation of lessons learnt in the construction of the first-in-class JHSV 1 drove margin growth, with an EBIT margin of 5.2 per cent in FY2013 compared to 2.7 per cent in FY 2012.

As expected, three more vessels were added to the order book under the major US Navy contracts. Funds for the final JHSV under Austal's 10-vessel US$1.6 billion contract were appropriated in December 2012. This added US$166.9 million to the order book and funds work on the JHSV program through to 2017. Meanwhile, funds for the fifth and sixth LCS under the US$3.5 billion contract – LCS 14 and 16 – were appropriated in March 2013, also in line with expectations. This added a further US$681.7 million to the order book and ensured funding on the LCS program was also secured through to 2017. Importantly, funds for LCS 14 and 16 were appropriated following the commencement of sequestration measures under the Budget Control Act, providing confidence in future funding. Austal expects funds for the next two vessels, LCS 18 and 20, to be appropriated in FY2014, and the final two, LCS 22 and 24, to be funded in FY2015.

Austal delivered the first-in-class JHSV, USNS *Spearhead* (JHSV 1), in December 2012. The JHSV program matured with productivity improved by lessons learnt in the construction of JHSV 1. JHSV 2, USNS *Choctaw County* was delivered in June 2013 after successfully completing builder's sea trials in March and acceptance trials in May which was six months after the delivery of JHSV 1. JHSV 3, USNS *Millinocket* was also launched in May and Austal celebrated the keel laying of JHSV 4. These achievements demonstrate the speed at which the JHSV program developed during the year.

The LCS program also delivered a number of significant milestones during FY2013. USS *Coronado* (LCS 4), the US Navy's fourth LCS and second built by Austal USA and General Dynamics, was performing builder's sea trials in the Gulf of Mexico by the end of the year. Austal anticipates delivery of this vessel to the US Navy in the near-term. Meanwhile the keel of LCS 6 – the first LCS being built by Austal as the prime contractor under the 10-vessel contract – was laid in October 2012. Construction on LCS 8 and LCS 10 progressed well in the year, with the keel laying for LCS 8 performed in June 2013.

Austal completed a reduced capital expenditure program at the US shipyard as expected, following the commissioning of the majority of the facilities in FY2012 and expanded its US workforce to 3,306.

Non-US Operations

Australian Operations

	FY2013 ($m)	FY2012 ($m)
Revenue	90.3	63.7
EBIT	0.5	(13.6)
EBIT margin (%)	0.6%	n/a
PBT	5.4	(9.2)

Austal's Australian operations delivered an improved result in FY2013, breaking even at the EBIT level after a $13.6 million loss in FY2012 and a loss in FY2011. This result was driven by improved productivity at the Henderson shipyard on the $330 million contract to design, construct and service the Cape Class Patrol Boat for Australian Customs and Border Protection. Austal delivered the first vessel first-in-class *Cape St George* (CCPB 1) in April 2013 following the keel laying in June 2012. The delivery of *Cape St George* underlined Austal's prime contracting credentials and total solution capability encompassing ships, systems and support. A phased increase in construction activity on subsequent patrol boats commenced in the year, with all eight due to be completed by August 2015.

Philippines Operations

	FY2013 ($m)	FY2012 ($m)
Revenue	40.0	1.9
EBIT	5.0	(0.8)
EBIT margin (%)	12.5%	n/a
PBT	5.0	(0.8)

Austal generated EBIT of $5.0 million in FY2013, a maiden profit in its first full year of operation at the shipyard. This was driven by the delivery of a 27 metre trimaran wind farm vessel and the ongoing construction of an 80 metre commercial vehicle ferry, which is expected to be delivered in the second quarter of FY2014. Foreign exchange movements had a significant positive impact on the financial result.

Austal mobilised 476 employees in the year as planned. The Company continued to transfer technology to the Philippines shipyard to establish a sustainable level of capability.

Service and Systems Operations

	FY2013 ($m)	FY2012 ($m)
Revenue	59.0	19.4
EBIT	(0.5)	1.6
EBIT margin (%)	n/a	8.2%
PBT	(0.4)	1.6

Austal entered into a number of partnerships in the year to enhance its service offering in the Asia-Pacific region, enhancing the Company's support offering to the US Navy and other navies active in the Asia-Pacific region.

Austal substantially expanded its service capability in Darwin through the acquisition of Hydraulink NT and its associated business KM Engineering, in recognition of the growing significance of the Asia-Pacific region to US and Australian naval forces.

The US Navy's Military Sealift Command (MSC) exercised two, six month options in the year (August 2012 & January 2013) for the charter of the Austal high speed vessel, the WestPac Express to support the operations of the United States Marine Corps' Third Marine Expeditionary Force.

Safety performance

Another challenging year to maintain our overall safety performance, having a full year of operations in our new Philippines Shipyard, restructuring to drive greater efficiencies in our Australian Operations and continued rapid growth of our workforce in our US Operations. The culture, experience levels and the diversity of our workplaces all changed with the potential to impact on our safety performance.

Occupational Health and Safety Policy

Austal's Occupational Safety and Health (OSH) Policy was reviewed and our focus remains on safe people, safe practices and safe work environments and promotes a workplace culture that raises awareness of individual responsibility for safety and health. Austal's safety culture is sustained as these components become accepted workplace practice and are supported by strong leadership.

Safe People

Once again the US Operations received two significant safety awards during the year: the American Longshore Mutual Association's Safest Large Shipyard Award and the Shipbuilders Council of America Award for Excellence in Safety. The latter is awarded to member shipyards with the lowest rate of recordable workplace injuries and Austal USA has received this award for the last 5 consecutive years.

Austal's Australian Operations were again recognised by the Industrial Foundation for Accident Prevention as a Gold level Safe Way achiever for the 3rd consecutive year.

The safety of our people is at the forefront of everything we do.

The Board of Directors of Austal Limited submit their report for the year ended 30 June 2013.

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

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

John stepped down as Executive Chairman and Chief Executive Officer on 22 August 2008 to continue as Non Executive Chairman.

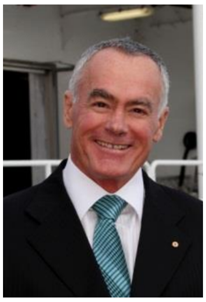
MICHAEL ATKINSON CA (ZIM), CA (SA) – Executive Director

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

Michael retired from the Board of Directors of Austal Limited on the 30 June 2013.

JOHN POYNTON BCom, FS Fin, FIAM, FAICD, AM, CitWA – Independent Director

John is a Co-Founder and Executive Chairman of Azure Capital. John is the deputy Chairman of Austal Limited and is a Non-Executive Director of Burswood Ltd. In the not-for-profit arena, he chairs Giving West and the Board of Celebrate WA. John is a member of Social Ventures Australia and the Curtin Foundation.



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

John is a Life Member and Senior Fellow of the Financial Services Institute of Australasia (FINSIA), a Fellow of the Australian Institute of Company Directors (AICD) and of the Australian Institute of Management (AIM).

John is a Member in the General Division of the Order of Australia and is a past recipient of a WA Citizen of the Year award in the industry and commerce category.

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

John resigned from the Board of Directors of Austal Limited on the 28 June 2013.

DARIO AMARA BEng (Distn) FIEAust CPEng - Independent Director

Dario is an engineer and experienced Chief Executive with business experience and networks gained over 30 years in the Australian and International Markets; spanning the engineering and construction sectors.

Dario has a record of achievement in establishing, growing and rejuvenating businesses and strategic leadership and has served as CEO of John Holland Asia Ltd and CEO of GRD Minproc Ltd.

Dario is currently Non-Executive Chairman of Mission New Energy Limited. He has also served as Chairman of the West Australian Opera Company, the Art Gallery of Western Australia, Heritage Perth and as a Board Member of the Perth International Arts Festival. He is currently a Board Member of the Murdoch University Art Collection.

DAVID SINGLETON – Independent Director

David brings to Austal a wealth of highly relevant business expertise and experience in both the defence and resources sectors. David has held numerous senior roles with BAE Systems (formerly British Aerospace), which is one of the world's largest defence companies. He served as Group Head of Strategy and Mergers & Acquisitions in London from 1997 to 1998 and again in 2003. In the intervening years, David was BAE's Managing Director of Asset Management before spending three years in Rome as the Chief Executive Officer of Alenia Marconi Systems (AMS). AMS was a European leader of naval warfare and air defence systems, C4I, ground and naval radars, command and control training systems and naval support.

David started his career with the UK Ministry of Defence and worked in research, development and manufacturing as well as senior management roles in Royal Ordnance which by then was part of BAE. He has also served as a member of the National Defence Industries Council in the UK, and as a board member and Vice President (Defence) of Intellect, a leading trade association for the UK technology industry.

David is the CEO and Managing Director of Perth-based mineral exploration company Poseidon Nickel Limited. Prior to this role, he served as CEO and Managing Director of Clough Limited between 2003 and 2007. David is also a Non-Executive Director of Quickstep Holdings, both ASX listed entities.

David was appointed to the Board of Directors of Austal Limited on 21 December 2011.

ANDREW BELLAMY BSc (Hons) Material Science, MA (Marketing) – Chief Executive Officer

Andrew has more than 20 years of business leadership experience in North America, Europe, Middle East and Asia. Andrew is responsible for the Group's worldwide operations and is also a member of the Board of Austal Limited and the Board of Austal USA.

Andrew joined Austal in September 2008, initially in the capacity of Head of Global Sales and Marketing. In this role Andrew was responsible for the Sales and Marketing function across all Austal's international businesses, including the strategically significant US operations. In 2010, Andrew was appointed Chief Operating Officer of Austal's Australian businesses and oversaw the growth and expansion of Austal's international network of locations at a time of significant turbulence in global markets. Andrew was appointed Chief Executive Officer of Austal in February 2011.

While at the helm of Austal, Andrew has been instrumental in Austal's emergence as a global defence prime contractor, following the award of several significant contracts including the Cape Class Patrol Boat programme for the Australian Customs and Border Protection Service, as well as the Joint High Speed Vessel and Littoral Combat Ship programmes for the US Navy.

Prior to joining Austal, Mr Bellamy held senior positions within the Oil and Gas industry with Honeywell and ICI. Mr Bellamy holds a BSc (Hons) in Materials Science from University of Sunderland and an MA (Marketing) from University of Lincoln and Humberside.

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 options^**
	Direct	Direct
John Rothwell	32,200,745	-
Dario Amara	50,000	-
David Singleton	28,600	-
Andrew Bellamy	799,958	280,000

^This represents options granted from the Employee Option Share Plan (ESOP) (refer to note 28 of the financial statements). There were no additional ordinary shares issued or options granted to directors and exercised between the balance date and the date of this report.

PRINCIPAL ACTIVITIES

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

RESULTS

The profit of the consolidated entity for the financial year was $35.742 million after income tax (2012: $11.043 million).

REVIEW OF OPERATIONS

A review of the operations and financial position of the consolidated entity is outlined in the Review of Operations on page 6.

DIVIDENDS

No dividend has been declared for the year ended 30 June 2013 (2012: Nil).

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

Austal executed a new Syndicated Facility Agreement which provides the following facilities through until 31 December 2015:

- US$190 million of Letters of Credit to support the Go Zone Bonds in the USA
- US$20.7 million of Equipment Asset Financing in the USA
- A$100 million of Performance Bonding and other Letters of Credit
- A$50 million of Revolving Credit Facility

The Board of Directors approved the redemption of US$54.960 million of Go Zone Bonds utilising restricted cash from the capital raising that was conducted in FY2013.

LIKELY DEVELOPMENTS AND FUTURE RESULTS

A general discussion of the group outlook is included in the Chairman's Report on page 2 and the Review of Operations on page 6.

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 Review of Operations on page 6.

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 2013.

SHARE OPTIONS

As at the date of this report, there were 9,323,790 un-issued ordinary shares under options. Refer to Note 28 for further details of the options outstanding. There were no options exercised during the year.

TOTAL NUMBER OF EMPLOYEES

The consolidated entity employed a total of 4,269 full-time equivalents (2012: 3,237 full-time equivalents) at 30 June 2013.

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.

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 Group, directly or indirectly, including any director (whether executive or otherwise) of the Company.

For the purposes of this report, the term 'executive' encompasses the Chief Executive, senior executives and general managers of the Parent and the Group. KMP for the year are set out in the table below.

NOMINATION AND REMUNERATION COMMITTEE

The Nomination and Remuneration Committee of the Board of Directors reviews the remuneration of all individual Directors, including the issue of any performance rights or variable remuneration and makes recommendations to the Board in addition to reviewing the overall remuneration policy of the company.

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 Executives fairly and appropriately with reference to relevant employment market conditions. Benchmarking of remuneration is undertaken against comparable sized companies in the Australian manufacturing sector.

The Company aims to reward executives and senior managers with an amount and mix of fixed and variable remuneration commensurate with their position and responsibilities within the Company. This is done in order 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; and
- maintain balance between the interests of shareholders and rewarding of executives in order to promote the long term benefits of driving returns to shareholders and retaining quality personnel.

Summary of changes to the remuneration structure in 2013

At the 2012 Annual General Meeting of shareholders, more than 25 per cent of votes cast were against the resolution to adopt the 2012 Remuneration Report, though the resolution was carried by a simple majority. In light of this vote, the Board and Remuneration Committee conducted a review of the Group's remuneration structure in an effort to address the concerns raised by shareholders. The Company has implemented a number of remuneration measures for 2013 including:

- Reducing the number of KMP and other executives that are entitled to participate in the long-term incentive plan (LTIP)
- Clearly identifying the performance measures used for the LTIP
  - 70% based on return on invested capital (ROIC) and 30% on total shareholder return (TSR)
- Deferring the issuance of performance rights under the LTIP
- Specifically linking short-term incentives (STI) to the delivery of performance criteria, principally EBIT and Cash
- Restructured the executive team to reduce costs
- Freezing KMP and Director salaries in 2013 (except where a change in role occurred)

The Board believes that these measures address the concerns held by shareholders, specifically regarding the award of incentive payments. The Board's intent is to ensure the Company's remuneration structure reflects shareholders' interests and supports the achievement of improved business performance over the long-term by motivating talented executives to deliver results that deliver sustainable returns to shareholders.

Structure

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 board considers this approach allows non-executive directors to maintain genuine independence.

The remuneration for the KMP and executives consists of fixed remuneration, being base salary, superannuation and non-monetary benefits and variable remuneration as listed below. Fixed remuneration is not linked to performance conditions.

The Company's remuneration policy also provides for appropriate proportions of remuneration to be either 'at risk', or in the form of equity (or both), to ensure there is alignment between the creation and development of shareholder value and executive remuneration. For example, the Chief Executive Officer's remuneration includes an issue of shares up to a maximum of 50% of the value of fixed annual remuneration. For the year ended 30 June 2012, the Chief Executive Officer was issued securities to the value of 30% of fixed remuneration – the minimum equity component of remuneration.

KMP and other executives are generally eligible to participate in an annual STI scheme which is designed to align business performance with a financial incentive. No STI was paid in 2013 as a result of the scheme suspension in 2012.

REMUNERATION REPORT (Audited) (Continued)

Further, the Board considers a freeze on the salaries of KMP and directors would further demonstrate the Company's commitment to ensuring the priority of shareholder interests in determining remuneration packages. As a result, the salaries earned by KMP and fees earned by directors during 2013 were frozen at 2012 levels, with the exception of KMP, whose roles changed during the year. Austal restructured the executive team to drive competitiveness and in order to preserve as much value as possible for shareholders.

LONG TERM INCENTIVE PLAN

The Long Term Incentive Plan (LTIP) which replaces Austal's previous executive share option plan aims to reward KMP with the issue of performance rights 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.

The LTIP was developed with the assistance of Mercer, an independent employee share plan consultant. There are separate LTIP for Australian and US executives to take into account relevant US regulations.

Suspension of the LTIP in 2013

In light of the concerns raised by shareholders through the vote at the 2012 AGM regarding the Remuneration Report and remuneration of KMP, the Company elected to suspend the LTIP for 2013, and no performance rights were issued during the year. This was despite the LTIP being approved by shareholders at the AGM.

Given the positive outlook for the Company, the Board expects certain KMP will be eligible for performance rights under the LTIP in the years ahead. However the number of KMP eligible for performance rights under the new LTIP will be significantly lower than those entitled to options under the previous share option plan. Eligibility for performance rights under the LTIP is dependent on the achievement of specific performance hurdles, being Return On Invested Capital (ROIC) and Total Shareholder Return (TSR). The approach to these performance hurdles is detailed below.

Structure

The performance rights may be granted to KMP and executives in accordance with the LTIP rules and set by the Remuneration Committee.

The terms of each offer to participate in the LTIP may differ depending on the relevant KMP role. Shares issued following the vesting of any performance rights will generally be subject to a restriction on trading for at least 12 months, although the holder will be entitled to any dividends paid during that restricted period.

The Board believes that following the suspension and subsequent re-shaping of the LTIP, including the reduction in the number of KMP entitled to participate, is in the best interests of shareholders. Entitlement to performance rights under the LTIP is based solely on measures which deliver improved results to shareholders, thereby ensuring that the objectives of KMP and shareholders are necessarily aligned.

Performance hurdles

The granting of performance rights is tied exclusively to overall company performance, measured against ROIC and TSR targets set periodically by the Board. The targets will be based on company-wide performance, rather than business unit performance, in order to maximise alignment with shareholder interests – Performance rights will not vest unless these hurdles, are met. Performance hurdles will be measured over a prescribed period determined by the board.

ROIC measure

70% of the performance rights that vest under the LTIP will be tied to the achievement of an average ROIC target over the prescribed period. The ROIC target will be based on company-wide performance, rather than business unit performance, in order to maximise alignment with shareholder interest. Performance rights will vest based on actual ROIC versus target ROIC over the measurement period. The threshold ROIC level will be set by the Board and will normally be at or above current ROIC when rights are issued.

TSR measure

30% of any LTI award will depend on the achievement of TSR levels prescribed by the Board. To be eligible for the full entitlement of performance rights under this aspect of the LTI Plan, TSR must exceed 25% over a prescribed period. The LTI entitlement reduces progressively as TSR figures step down below 25%, such that if TSR over the prescribed period is less than 25% then performance rights based on TSR will not vest. Maintenance of existing TSR performance in itself is not enough to meet the hurdle required for performance rights under this measure. The Board considers this to be consistent with its objective of improving returns to shareholders.

REMUNERATION REPORT (Audited) (Continued)

SHARE OPTION PLAN

The Share Option Plan, which has been replaced by the LTIP, rewarded KMP 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.

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

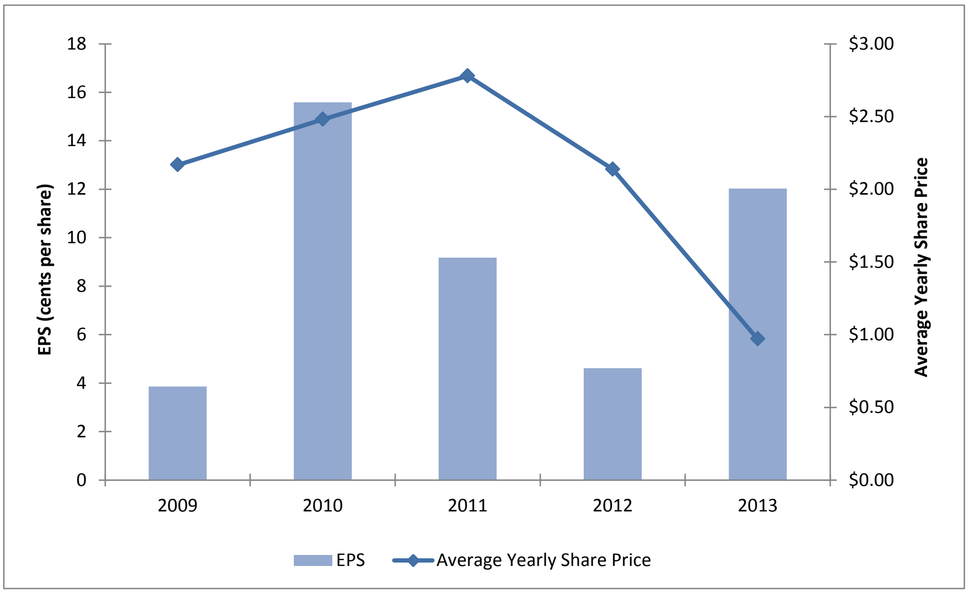
The Company uses a relative Total Shareholder Return (TSR) as the performance hurdle for the share option plan. Relative TSR was selected as the share option plan performance hurdle as it ensures an alignment between comparative shareholder return and reward for executives.

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 1 July prior to the grant date. The series of options issued at that grant date would lapse if the TSR does not exceed the return of the Small Industrials Accumulation Index for a particular three year period.

In relation to the options issued after 3 November 2009, the options vest if the TSR of Austal Limited exceeds 25% for each three year period after issuance. The percentage vesting reduces on a sliding scale if the TSR is below 25%, until no options vest if the TSR is below 5%.

Group performance

The graph below shows the performance of the Company as compared to the movement in the Company's earnings per share (EPS) over time.



DETAILS OF KEY MANAGEMENT PERSONNEL FOR THE YEAR ENDED 30 JUNE 2013

EXECUTIVES

Executive directors

Mr Andrew Bellamy	Chief Executive Officer
Mr Michael Atkinson(1)	Executive Director

Senior executives

Mr Greg Jason(5)	Chief Financial Officer
Mr Graham Backhouse(3)	President Australia
Mr Joey Turano(2)	President Philippines
Mr Brian Leathers	Chief Financial Officer USA
Mr Craig Perciavalle(4)	President USA
Mr Charles McGill(7)	Chief Operating Officer Service & Systems
Mr Richard Simons(6)	Chief Financial Officer

NON-EXECUTIVE DIRECTORS

Mr John Rothwell	Non-Executive Chairman
Mr John Poynton(8)	Independent Director
Mr Dario Amara	Independent Director
Mr David Singleton	Independent Director

(1) Mr Michael Atkinson retired on the 30th of June 2013.
(2) Mr Joey Turano was appointed to President Philippines on the 5th of November 2012.
(3) Mr Graham Backhouse was appointed to President Australia on the 3rd of December 2012.
(4) Mr Craig Perciavalle was appointed President USA on the 13th of December 2012.
(5) Mr Greg Jason was appointed to the position of Chief Financial Officer on the 15th of January 2013.
(6) Mr Richard Simons ceased employment on the 2nd of October 2012.
(7) Mr Charles McGill ceased employment on the 28th of March 2013.
(8) Mr John Poynton resigned on the 28th of June 2013.

REMUNERATION REPORT (Audited) (Continued)

REMUNERATION OF KEY MANAGEMENT PERSONNEL FOR THE YEAR ENDED 30 JUNE 2013.

TABLE 1: REMUNERATION FOR THE YEAR ENDED 30 JUNE 2013 AND 30 JUNE 2012

		Short-Term								
		Salary & Fees $	Cash Bonus $	Other Monetary Benefits $	Non-Monetary Benefits $	Termination Payments	Share-based Payment Options $	Total $	% Performance related	% Options
Non-executive directors										
John Rothwell[1]	2013	363,636	-	-		-	-	363,636	-	-
	2012	366,667	-	-		-	-	366,667	-	-
John Poynton[2] [9]	2013	90,000	-	-		-	-	90,000	-	-
	2012	90,000	-	-		-	-	90,000	-	-
Dario Amara	2013	93,000	-	-		-	-	93,000	-	-
	2012	93,000	-	-		-	-	93,000	-	-
David Singleton	2013	85,000	-	-		-	-	85,000	-	-
	2012	45,076	-	-		-	-	45,076	-	-
Christopher Norman[10]	2012	42,500	-	-		-	-	42,500	-	-
Ian Campbell[11]	2012	90,000	-	-		-	-	90,000	-	-
Executive directors										
Michael Atkinson[14]	2013	327,750	-	-	-	-	60,337	388,087	15.5	15.5
	2012	392,192	37,962	-	-	-	44,524	474,678	17.4	9.4
Andrew Bellamy	2013	750,405	-	175,342	-	-	150,590	1,076,337	14.0	14.0
	2012	755,217	92,656	25,000	-	-	345,165	1,218,038	35.9	28.3
Other key management personnel										
Joey Turano[3]	2013	108,251	-	2,027	10,246	-	-	120,524	-	-
Graham Backhouse[4]	2013	130,263	-	11,724	-	-	-	141,987	-	-
Craig Perciavalle[5]	2013	332,024	-	17,296	-	-	40,444	389,764	10.4	10.4
Greg Jason[6]	2013	295,263	-	18,330	1,119	-	74,594	389,306	19.2	19.2
	2012	178,446	16,166	15,190	-	-	52,053	261,855	26.1	19.9
Brian Leathers	2013	330,331	-	6,084	-	-	39,336	375,751	10.5	10.5
	2012	2,933	581	-	-	-	428	3,942	25.6	10.8
Richard Simons[7][13]	2013	124,949	-	16,424	-	332,647	(123,048)	350,972	(35.1)	(35.1)
	2012	438,221	56,025	25,689	-	-	66,809	586,744	20.9	11.4
Charles McGill[8]	2013	258,981	-	19,807	-	-	(7,790)	270,998	(2.9)	(2.9)
	2012	49,051	-	25,132	-	-	2,672	76,855	3.5	3.5
Joseph Rella[12]	2012	407,216	59,983	-	-	-	(144,830)	322,369	(26.3)	(44.9)

(1) Mr John Rothwell's fee for 2012 and 2013 is exclusive of GST.
(2) Mr John Poynton's fee for 2012 and 2013 is exclusive of GST.
(3) Mr Joey Turano was appointed to President Philippines on the 5th of November 2012.
(4) Mr Graham Backhouse was appointed to President Australia on the 3rd of December 2012.
(5) Mr Craig Perciavalle was appointed President USA on the 13th of December 2012.
(6) Mr Greg Jason was appointed to the position of Chief Financial Officer on the 15th of January 2013.
(7) Mr Richard Simons ceased employment on the 2nd of October 2012.
(8) Mr Charles McGill ceased employment on the 28th of March 2013.
(9) Mr John Poynton resigned on the 28th of June 2013.
(10) Mr Christopher Norman resigned on the 16th of December 2011.
(11) Mr Ian Campbell resigned on the 30th of June 2012.
(12) Mr Joseph Rella resigned on the 22nd of June 2012.
(13) Mr Simons' remuneration for 2013 includes a termination payment following his resignation in October 2012.
(14) Mr Michael Atkinson's fee for 2012 and 2013 is exclusive of GST.

REMUNERATION REPORT (Audited) (Continued)

TABLE 2: SUMMARY OF CONTRACTUAL PROVISIONS FOR KMP EXECUTIVES

Name	Employing company	Contract duration	Termination notice period company(1)(2)	Termination notice period executive(2)
Andrew Bellamy	Austal Limited	Unlimited	3 months	3 months
Michael Atkinson	Austal Limited	Unlimited	0 months	0 months
Richard Simons(5)	Austal Limited	Unlimited	9 months	9 months
Greg Jason	Austal Limited	Unlimited	12 weeks	12 weeks
Charles McGill(4)	Austal Service Pty Ltd	Unlimited	3 months	3 months
Graham Backhouse	Austal Ships Pty Ltd	Unlimited	12 weeks	12 weeks
Joey Turano	Austal Philippines Pty Ltd	Unlimited	1 month(3)	3 months
Craig Perciavalle	Austal USA LLC	Unlimited	0 months	0 months
Brian Leathers	Austal USA LLC	Unlimited	6 months	6 months

(1) Termination provisions – Austal may choose to terminate the contract immediately by making a payment equal to the Company Notice Period fixed remuneration in lieu of notice. In the event of termination for serious misconduct or other nominated circumstances, executives are not entitled to this termination payment.

(2) On termination of employment, executives will be entitled to the payment of any fixed remuneration calculated up to the termination date, any leave entitlement accrued at the termination date and any payment or award permitted under the remuneration policy.

(3) Termination period is accrued at a rate of 1 month per year of service.

(4) Mr McGill ceased employment on the 28th of March 2013.

(5) Mr Richard Simons ceased employment on the 2nd of October 2012.

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REMUNERATION REPORT (Audited) (Continued)

TABLE 3: COMPENSATION OPTIONS: GRANTED AND VESTED DURING THE YEAR

	Terms & Conditions for each Grant						
	Award Year	Options granted during the year No.	Grant Date	Fair value per options at award date ($)	Vesting date	No. vested during year	No. lapsed during year
Andrew Bellamy	2013	-	-	-	-	-	-
	2012	-	-	-	-	-	-
	2011	-	28/09/2010	-	28/09/2013	-	-
	2010	-	03/11/2009	-	31/08/2012	140,000	-
Michael Atkinson	2013	-	-	-	-	-	-
	2012	-	21/10/2011	-	20/12/2014	-	-
	2011	-	28/09/2010	-	28/09/2013	-	-
	2010	-	03/11/2009	-	31/08/2012	140,000	-
	2008	-	24/10/2007	-	13/09/2010	-	-
Greg Jason	2013	-	-	-	-	-	-
	2012	-	20/12/2011	-	20/12/2014	-	-
	2011	-	28/09/2010	-	28/09/2013	-	-
	2010	-	03/11/2009	-	31/08/2012	140,000	-
	2009	-	10/09/2008	-	10/09/2011	-	-
Craig Perciavalle	2013	-	-	-	-	-	-
	2012	-	20/12/2011	-	20/12/2014	-	-
	2011	-	28/09/2010	-	28/09/2013	-	-
	2010	-	03/11/2009	-	31/08/2012	70,000	-
	2009	-	10/09/2008	-	10/09/2011	-	-
Brian Leathers	2013	-	-	-	-	-	-
	2012	-	20/12/2011	-	20/12/2014	-	-
	2011	-	28/09/2010	-	28/09/2013	-	-
	2010	-	03/11/2009	-	31/08/2012	70,000	-
	2009	-	10/09/2008	-	10/09/2011	-	-
Richard Simons^	2013	-	-	-	-	-	-
	2012	-	20/12/2011	-	20/12/2014	-	140,000
	2011	-	28/09/2010	-	28/09/2013	-	140,000
	2010	-	25/02/2010	-	27/02/2013	-	140,000
Charles McGill	2012	-	20/12/2011	-	20/12/2014	-	70,000
Total						**560,000**	**490,000**

^ 420,000 options were forfeited on cessation of employment.

REMUNERATION REPORT (*Audited*) *(Continued)*

TABLE 4: OPTIONS GRANTED AS PART OF REMUNERATION DURING THE YEAR

	Value of options granted during the year $	Value of options exercised during the year $	Value of options forfeited during the year[1] $	Value of options lapsed during the year $
30 June 2013				
Richard Simons*	-	-	-	-
Charles McGill*	-	-	-	-

1. The options had no intrinsic value as at the date of forfeiture.

END OF REMUNERATION REPORT (Audited)

DIRECTORS' MEETINGS

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

	Directors' Meetings	Meetings of Audit Committee	Meetings of Nomination and Remuneration Committee
Number of meetings held	8	4	3
Number of meetings attended:			
John Rothwell	8	-	3
Michael Atkinson	6	2	-
John Poynton*	5	-	3
David Singleton	8	4	3
Dario Amara	8	4	-
Andrew Bellamy **	8	4	3

* Director for part of the 2013 year.
** Attended as a guest at Audit Committee and Remuneration Committee meetings.

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^	D Singleton^
D Singleton	J Poynton*
M Atkinson	J Rothwell

^ Designates the Chairman of the committee.

ROUNDING

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

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

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

Ernst & Young
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
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 2013, 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

Robert Kirkby
Partner
30 August 2013

A member firm of Ernst & Young Global Limited
Liability limited by a scheme approved under Professional Standards Legislation

RK:DJ:Austal:023

NON-AUDIT SERVICES

Non-audit services provided by the entity's auditor, Ernst & Young, during the year, are disclosed in note 26. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Signed in accordance with a resolution of directors.

J ROTHWELL AO
Chairman

A BELLAMY
Executive Director and Chief Executive Officer

Dated at Henderson this 30th day of August 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
As at 30 June 2013

	Notes	2013 $'000	2012 $'000
Revenue	3(a)	902,813	652,996
Cost of sales – construction contracts		(767,858)	(589,391)
Cost of sales – service		(30,970)	(12,203)
Chartering expenses		(8,502)	(7,912)
Gross profit		95,483	43,490
Other income	3(b)	26,015	32,932
Administration expenses		(71,212)	(44,356)
Marketing expenses		(9,989)	(12,299)
Impairment of assets	3(c)	-	(2,545)
Finance costs	3(d)	(13,571)	(4,665)
Profit before income tax		**26,726**	**12,557**
Income tax benefit / (expense)	5	9,016	(1,514)
Profit after tax		**35,742**	**11,043**
Profit attributable to:			
Owners of the parent		35,870	11,043
Non-controlling interests		(128)	-
		35,742	**11,043**
Other comprehensive income			
Amounts that may subsequently be reclassified to profit and loss:			
Cash flow hedges:			
- Gain/(loss) taken to equity		10,644	(28,207)
- Transferred to profit and loss		(3,177)	(6,404)
- Transferred to Inventory		(15,427)	(922)
Foreign currency translations		11,516	(1,703)
Income tax benefit/(expense)		9,894	10,674
Amounts that will not subsequently be reclassified to profit and loss:			
Revaluation of land and buildings		-	42,152
Income tax benefit/(expense)		-	(14,661)
Other comprehensive income for the period, net of tax		**13,450**	**929**
Total comprehensive income for the year		49,192	11,972
Total comprehensive income attributable to:			
Owners of the parent		49,320	11,972
Non-controlling interests		(128)	**-**
Earnings per share (cents per share)			
- basic for profit for the year attributable to ordinary equity holders of the parent	6	12.03	4.62
- diluted for profit for the year attributable to ordinary equity holders of the parent	6	12.01	4.61

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2013

	Notes	2013 $'000	2012 $'000
ASSETS			
Current Assets			
Cash and cash equivalents	8	38,030	51,811
Restricted cash	8	69,673	52,940
Trade and other receivables	9	102,743	96,172
Inventories	10	277,888	193,529
Prepayments	11	7,653	6,538
Derivatives	14	7,749	36,041
		503,736	437,031
Assets classified as held for sale	12	-	1,561
Total Current Assets		**503,736**	**438,592**
Non-current Assets			
Other financial assets		4,141	944
Trade and other receivables	9	-	18
Derivatives	14	1,651	10,625
Property, plant and equipment	12	399,917	370,383
Intangible assets and goodwill	13	12,526	5,045
Deferred tax assets	5	22,647	380
Total Non-current Assets		**440,882**	**387,395**
Total Assets		**944,618**	**825,987**
LIABILITIES			
Current Liabilities			
Trade and other payables	15	133,813	128,626
Derivatives	14	12,193	2,186
Interest-bearing loans and borrowings	16	243,614	18,973
Provisions	18	25,128	18,250
Government grants	17	4,221	3,561
Income tax payable		24,537	27,394
Other	19	21,790	27,288
Total Current Liabilities		**465,296**	**226,278**
Non-current Liabilities			
Derivatives	14	4,885	5,757
Interest-bearing loans and borrowings	16	1,163	246,444
Provisions	18	2,217	2,060
Government grants	17	52,794	48,753
Deferred tax liabilities	5	11,076	19,648
Total Non-current Liabilities		**72,135**	**322,662**
Total Liabilities		**537,431**	**548,940**
Net Assets		**407,187**	**277,047**
EQUITY			
Contributed equity	20	111,329	31,762
Reserves	20	37,308	22,595
Retained earnings	20	258,560	222,690
Equity attributable to owners of the parent		**407,197**	**277,047**
Non - Controlling Interests		**(10)**	-
Total Equity		**407,187**	**277,047**

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 30 June 2013

	Notes	2013 $'000	2012 $'000
Cash flows from operating activities			
Receipts from customers		894,029	555,639
Payments to suppliers and employees		(930,149)	(521,472)
Interest received		2,231	644
Interest paid		(13,571)	(4,665)
Income tax received/(paid)		(10,580)	4,860
GST refunds/(payments)		2,172	(1,870)
Net cash (used in)/from operating activities	8	(55,868)	33,136
Cash flows from investing activities			
Receipts of government grants		4,763	8,698
Proceeds from sale of property, plant and equipment		9,351	-
Proceeds from the sale of assets held for sale		6,898	-
Purchase of property, plant and equipment		(21,265)	(131,459)
Purchase of intangible assets		(3,478)	(1,849)
Acquisition of subsidiary/investment	30	(2,914)	-
Net cash (used in)/from investing activities		(6,645)	(124,610)
Cash flows from financing activities			
Repayment of loan – exercise of in substance options		-	289
Proceeds from issue of shares net of transaction costs		75,065	-
Repayment of borrowings		(93,368)	(40,557)
Loans received		50,244	69,743
Equity dividends paid		-	(11,284)
Gain(loss) on derivatives		32,227	-
Net cash (used in)/from financing activities		64,168	18,191
Net increase/(decrease) in cash and cash equivalents		1,655	(73,283)
Net foreign exchange differences		1,297	6,932
Cash and cash equivalents at beginning of period		104,751	171,102
Cash and cash equivalents at end of period	**8**	**107,703**	**104,751**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2013

	Attributable to equity holders of the parent								
	Issued capital $'000	Reserved shares* $'000	Retained earnings $'000	Foreign currency translation reserve $'000	Cash flow hedge reserve $'000	Other Reserves** $'000	Total $'000	Non-Controlling Interest $'000	Total Equity $'000
As at 1 July 2011	**41,075**	**(9,900)**	**222,931**	**(8,865)**	**41,508**	**(12,580)**	**274,169**	**-**	**274,169**
Currency translation differences	-	-	-	(1,703)	-	-	(1,703)	-	(1,703)
Asset revaluation net of tax	-	-	-	-	-	27,491	27,491	-	27,491
Transfers to inventory	-	-	-	-	(645)	-	(645)	-	(645)
Net gains taken to equity	-	-	-	-	(19,745)	-	(19,745)	-	(19,745)
Transfers to profit and loss	-	-	-	-	(4,469)	-	(4,469)	-	(4,469)
Total other comprehensive income for the year	-	-	-	(1,703)	(24,859)	27,491	929	-	929
Profit for the year	-	-	11,043	-	-	-	11,043	-	11,043
Total comprehensive income for the year	-	-	11,043	(1,703)	(24,859)	27,491	11,972	-	11,972
Equity Transactions:									
Shares issued	298	-	-	-	-	-	298	-	298
Options exercised	-	289	-	-	-	-	289	-	289
Cost of share-based payments	-	-	-	-	-	1,603	1,603	-	1,603
Equity dividends	-	-	(11,284)	-	-	-	(11,284)	-	(11,284)
As at 30 June 2012	**41,373**	**(9,611)**	**222,690**	**(10,568)**	**16,649**	**16,514**	**277,047**	**-**	**277,047**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2013

	Attributable to equity holders of the parent								
	Issued capital $'000	Reserved shares* $'000	Retained earnings $'000	Foreign currency translation reserve $'000	Cash flow hedge reserve $'000	Other Reserves** $'000	Total $'000	Non-Controlling Interest $'000	Total Equity $'000
As at 1 July 2012	**41,373**	**(9,611)**	**222,690**	**(10,568)**	**16,649**	**16,514**	**277,047**	**-**	**277,047**
Currency translation differences	-	-	-	19,022	-	-	19,022	-	19,022
Transfers to inventory	-	-	-	-	(10,799)	-	(10,799)	-	(10,799)
Net gains taken to equity	-	-	-	-	7,451	-	7,451	-	7,451
Transfers to profit and loss	-	-	-	-	(2,224)	-	(2,224)	-	(2,224)
Total other comprehensive income for the year	-	-	-	19,022	(5,572)	-	13,450	-	13,450
Profit for the year	-	-	35,870	-	-	-	35,870	(128)	35,742
Total comprehensive income for the year	-	-	35,870	19,022	(5,572)	-	49,320	(128)	49,192
Equity Transactions:									
Shares issued	77,891	-	-	-	-	-	77,891	-	77,891
Transaction costs	(1,823)	-	-	-	-	-	(1,823)	-	(1,823)
Cost of share-based payments	-	-	-	-	-	1,263	1,263	-	1,263
Acquisition of Subsidiary	3,499	-	-	-	-	-	3,499	(118)	3,381
As at 30 June 2013	**120,940**	**(9,611)**	**258,560**	**8,454**	**11,077**	**17,777**	**407,197**	**(10)**	**407,187**

** Refer to note 20 for details of movements in other reserves
*Reserved shares are in relation to the Austal Group Management Share Plan.

NOTE 1. CORPORATE INFORMATION

The financial report of the Austal Limited Group of Companies (the Group) for the year ended 30 June 2013 was authorised for issue in accordance with a resolution of the directors on 29 August 2013.

Austal Limited is a company limited by shares incorporated and domiciled 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.

NOTE 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 and land and buildings 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.

The financial report also presents the figures of the consolidated entity only, unless otherwise stated. Austal Limited is a for profit entity.

(b) Statement of compliance

The financial report complies with Australian Accounting Standards and International Financial Reporting Standard (IFRS), as issued by the International Accounting Standards Board.

From 1 July 2012 the Group has adopted all the Standards and Interpretations mandatory for annual periods beginning on or after 1 July 2012, including the following pronouncements:

- AASB 2011-9: Amendments to Australian Accounting Standards - Presentation of Other Comprehensive Income effective 1 July 2012

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 relevant pronouncements which have not been adopted by the Group are as follows:

AASB 10: Consolidated Financial Statements. AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 Consolidated and Separate Financial Statements dealing with the accounting for consolidated financial statements and UIG-112 Consolidation – Special Purpose Entities. The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. Consequential amendments were also made to other standards via AASB 2011-7 and AASB 2012-10.

AASB 11: Joint Arrangements. AASB 11 replaces AASB 131 Interests in Joint Ventures and UIG-113 Jointly- controlled Entities – Non-monetary Contributions by Ventures. AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition it removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method. Consequential amendments were also made to other standards via AASB 2011-7, AASB 2010-10 and amendments to AASB 128.

AASB 12: Disclosure of Interests in Other Entities. AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structures entities. New disclosures have been introduced about the judgments made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.

AASB 13: Fair Value Measurement. AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets. AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined. Consequential amendments were also made to other standards via AASB 2011-8.

AASB 119: Employee Benefits. The revised standard changes the definition of short-term employee benefits. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date. Consequential amendments were also made to other standards via AASB 2011-10.

AASB 2011-4: This amendment deletes from AASB 124 individual key management personnel disclosure requirements for disclosing entities that are not companies. It also removes the individual KMP disclosure requirements for all disclosing entities in relation to equity holdings, loans and other related party transactions.

AASB 1053: Application of Tiers of Australian Accounting Standards. This Standard establishes a differential financial reporting framework consisting of two

Tiers of reporting requirements for preparing general purpose financial statements:

(a) Tier 1: Australian Accounting Standards

(b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements

Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.

The following entities apply Tier 1 requirements in preparing general purpose financial statements:

(a) For-profit entities in the private sector that have public accountability (as defined in this Standard)

(b) The Australian Government and State, Territory and Local Governments

The following entities apply either Tier 2 or Tier 1 requirements in preparing general purpose financial statements:

(a) For-profit private sector entities that do not have public accountability

(b) All not-for-profit private sector entities

(c) Public sector entities other than the Australian Government and State, Territory and Local Governments.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) **Statement of compliance (continued)**

Consequential amendments to other standards to implement the regime were introduced by AASB 2010-2, 2011-2, 2011-6, 2011-11, 2012-1, 2012-7 and 2012-11.

AASB 2012-2: AASB 2012-2 principally amends AASB 7 Financial Instruments: Disclosures to require disclosure of information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.

AASB 2012-5: Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle– AASB 2012-5 makes amendments resulting from the 2009-2011 Annual Improvements Cycle. The Standard addresses a range of improvements, including the following:

- repeat application of AASB 1 is permitted (AASB 1); and
- clarification of the comparative information requirements when an entity provides a third balance sheet (AASB 101 Presentation of Financial Statements).

AASB 2012-9: AASB 2012-9 amends AASB 1048 Interpretation of Standards to evidence the withdrawal of Australian Interpretation 1039 Substantive Enactment of Major Tax Bills in Australia.

AASB 2011-4: This amendment deletes from AASB 124 individual key management personnel disclosure requirements for disclosing entities that are not companies. It also removes the individual KMP disclosure requirements for all disclosing entities in relation to equity holdings, loans and other related party transactions.

AASB 1053: This standard establishes a differential financial reporting framework consisting of two tiers of reporting.

AASB 2012-3: Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities: AASB 2012-3 adds application guidance to AASB 132 Financial Instruments: Presentation to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.

Interpretation 21: This Interpretation confirms that a liability to pay a levy is only recognised when the activity that triggers the payment occurs. Applying the going concern assumption does not create a constructive obligation.

AASB 9: Financial Instruments: AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities.

These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below.

(a) Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows.

(b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit and loss and there is no impairment or recycling on disposal of the instrument.

(c) Financial assets can be designated and measured at fair value through profit and loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.

(d) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows**:**

- The change attributable to changes in credit risk are presented in other comprehensive income (OCI)
- The remaining change is presented in profit and loss

If this approach creates or enlarges an accounting mismatch in the profit and loss, the effect of the changes in credit risk are also presented in profit and loss.

Further amendments were made by AASB 2012-6 which amends the mandatory effective date to annual reporting periods beginning on or after 1 January 2015. AASB 2012-6 also modifies the relief from restating prior periods by amending AASB 7 to require additional disclosures on transition to AASB 9 in some circumstances. Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7 and 2010-10.

A full assessment of the impact of all the new or amended Accounting Standards and interpretations issued but not effective has not yet been completed.

(c) Basis of consolidation

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

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

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. In preparing the consolidated financial statements, all intercompany balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends have been eliminated in full.

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

Investments in subsidiaries held by Austal Limited are accounted for at cost in the separate financial statements of the parent entity less any impairment charges. Dividends received from subsidiaries are recorded as a component of other revenues in the statement of comprehensive income of the parent entity, and do not impact the recorded cost of the investment. Upon receipt of dividend payments from subsidiaries, the parent will assess whether any indicators of impairment of the carrying value of the investment in the subsidiary exist. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised.

(d) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Business combinations and goodwill (continued)

Acquisition-related costs are expensed as incurred, and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit and loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 either in profit and loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Acquisitions prior to July 2009 were accounted for using the purchase method of accounting.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the gain is recognised in profit and loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquire are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstance is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

(e) 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:

Construction contract revenue

The assessment of construction contract revenue in accordance with the Group's accounting policies requires certain estimates to be made of total contract revenues, total contract costs and the current stage of completion. Management have made estimates in this area, which if ultimately inaccurate will impact the level of revenue recognised in the Consolidated Statement of Comprehensive Income of 2013 and beyond.

Expected construction profits at completion

In determining the gross profit on construction projects the Group has made estimates in relation to the assessment of projects on a percentage of completion basis, in particular with regard to accounting for variations, the timing of profit recognition and the amount of profit recognised. The percentage of complete is calculated on actual costs over the sum of actual costs plus projected costs to complete the contract and profit is recognised from commencement of the project.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

Impairment of non-financial assets other than goodwill

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include product and manufacturing performance, technology, economic and political environments and future product expectations. If an impairment trigger exists, the recoverable amount of the asset is determined. The recoverable amount of the asset is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

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

(ii) Significant accounting estimates and assumptions

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

Workers compensation

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

Long service leave

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

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a Monte Carlo model, with the assumptions detailed in note 28.

Estimation of useful lives of assets

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

Derivative financial instruments and hedging

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

Revaluation of land and buildings

The Group measures land and buildings at revalued amounts with changes to fair value being recognised in other comprehensive income. The Group engages independent valuation specialists on a periodic basis to determine the fair values of these assets. The Group reviews market indicators in the interim periods to ensure that the carrying value of revalued property is not materially different from fair value.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Revenue recognition

Revenue is recognised and measured at fair value of the consideration received or receivable to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Construction Contract Revenue

Construction contract revenue is brought to account on a percentage of completion basis, based on actual costs incurred as a proportion of estimated total contract costs.

Where the contract outcome cannot be measured reliably, contract costs are recognised as an expense as incurred and where it is probable that the costs will be recovered, revenue is recognised only to the extent of the costs incurred.

(ii) Sale of Goods and Scrap

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer. Risk and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customer.

(iii) Charter Revenue

Charter revenue is operating rentals received on charter of vessels and is recognised when the control over the right to revenue is achieved.

(iv) Service Revenue

Service revenue is brought into account on a percentage of completion basis, based on actual costs incurred as a proportion of estimated total contract costs. Where the contract outcome cannot be measured reliably, contract costs are recognised as an expense as incurred and where it is probable that the cost will be recovered, revenue is recognised only to the extent of the costs incurred.

(v) Interest income

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

(vi) Dividends

Revenue is recognised when the Group's right to receive the payment is established.

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

(h) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period they occur.

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(i) 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 statement of comprehensive income on a straight-line basis over the lease term.

(j) Cash and cash equivalents

Cash and short-term deposits in the statement of financial position 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.

(k) 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.

(l) 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 statement of comprehensive income on the purchase, sale, issue or cancellation of the Group's own equity instruments.

(m) Inventories

Construction work in progress is valued at contract cost incurred to date, plus profit recognised to date, less any provision for anticipated future losses and progress billings. Costs include production overheads. Construction profits are recognised on the percentage of completion basis. Percentage of completion is determined by reference to actual costs to date as a proportion of estimated total contract costs.

Stock and finished goods are valued at the lower of cost and net realisable value, where costs include production overheads. Cost of stock is determined on the weighted average cost basis.

(n) Derivative financial instruments and hedging

The Group uses derivative financial instruments such as forward exchange contracts and forward currency options to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are stated at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives, except for those that qualify as cash flow hedges, are taken to the statement of comprehensive income.

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

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

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) 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 statement of comprehensive income.

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 statement of comprehensive income. 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 statement of comprehensive income.

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

(o) 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 date. All exchange differences arising from the above procedures are taken to the statement of comprehensive income.

The functional currency of Austal USA 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 date and the statement of comprehensive income 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 statement of comprehensive income.

(p) 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 date.

Deferred income tax is provided on all temporary differences at the balance 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

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Income tax (continued)

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

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.

(q) 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 statement of financial position.

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.

(r) 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 fair value less accumulated depreciation on buildings and any impairment losses recognised after the date of revaluation. Valuations are performed frequently to ensure that the fair value of a revalued asset does not differ materially from its carrying value.

Any revaluation surplus is recorded in other comprehensive income and hence credited to the asset revaluation reserve in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of comprehensive income, in which case, the increase is recognised in the profit and loss. A revaluation deficit is recognised in the statement of comprehensive income except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve. Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

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

Buildings – straight-line over 40 years

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.

(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 statement of comprehensive income.

The asset or cash-generating unit that suffered an impairment is tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

(ii) De-recognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the year the asset is derecognised.

(s) Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

(t) 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 on initial recognition.

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.

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.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Impairment – Financial assets

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

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

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

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

(v) 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 profit or loss in the year in which the expenditure is incurred.

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

Research and Development costs

Research costs are expensed as incurred. Development expenditure on an individual project are recognised as an intangible asset when the Group can demonstrate:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale
- its intention to complete and its ability to use or sell the asset
- how the asset will generate future economic benefits
- the availability of resources to complete the asset
- the ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in costs of sales. During the period of development, the asset is tested for impairment annually.

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

	Development costs
Useful lives	Finite
Method used	5 years – Straight line Amortisation method reviewed at each financial year-end
Internally generated or acquired	Internally generated
Impairment testing	Reviewed annually for indicator of impairment

(w) 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 for assets excluding goodwill 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 statement of comprehensive income. 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.

The following asset has specific characteristics for impairment testing:

Goodwill - Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) 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.

(y) 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 statement of comprehensive income when the liabilities are derecognised.

(z) 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.

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 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.

(aa) 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 due 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.

(ab) Share-based payment transactions

Equity settled transactions

The Group provides benefits to employees (including executive 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 Long Term Incentive Plan (LTI Plan).

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a Monte Carlo model.

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. Where non-market performance conditions must be satisfied, the number of entitlements included in expense recognition is adjusted to an estimate of the ultimate number of entitlements expected to vest.

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 statement of comprehensive income 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(l) for the accounting policy applied to these shares.

(ac) 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.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ad) 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.

Diluted earnings per share are calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses;
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; and
- divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(ae) Operating Segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start-up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the board of directors.

Operating segments have been identified based on the information provided to the chief operating decision makers — being the executive management team.

The group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following respects:

- Nature of the products and services
- Nature of the production processes
- Type or class of customer for the products and services
- Methods used to distribute the products or provide the services, and if applicable
- Nature of the regulatory environment

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately.

However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category for “all other segments”. Refer to Note 4.

NOTE 3. REVENUE AND EXPENSES

	2013 $'000	2012 $'000
Revenue and Expenses from Continuing Operations		
(a) Revenue		
Construction contract revenue	849,514	617,847
Charter revenue	15,459	11,298
Service revenue	32,287	20,007
Rental revenue	500	680
Sale of scrap	2,822	2,519
Interest from other unrelated parties	2,231	645
	902,813	652,996
(b) Other income		
Government grants	4,763	4,550
Training reimbursement	6,754	8,822
Gain on disposal of property, plant and equipment	115	4,269
Net foreign exchange gain	6,029	9,037
Foreign exchange gain on forward currency options less deferred premiums	3,352	5,114
Other income	5,002	1,140
	26,015	32,932
(c) Impairment		
Impairment of assets	-	2,545
(d) Finance costs		
Interest paid to unrelated parties	13,571	4,665
(e) Depreciation, amortisation and foreign exchange differences included in the statement of comprehensive income		
Depreciation excluding impairment	21,914	14,457
Amortisation	2,595	1,867
(f) Lease payments included in statement of comprehensive income (Included in administration expenses)		
Rental expenses on operating leases	1,343	1,877

NOTE 3. REVENUE AND EXPENSES (continued)

	2013 $'000	2012 $'000
(g) Employee benefits expense		
Wages and salaries	180,883	163,054
Superannuation	1,020	375
Share based payments	1,263	1,603
Workers' compensation costs	538	2,927
Annual leave (reversal)/expense	7,536	6,527
Long service leave expense	1,031	1,002
	192,271	175,488

NOTE 4. OPERATING SEGMENTS

Identification of reportable segments:

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

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

The Group's reportable segments are as follows:

Henderson Shipyard Operations ("HSO")

The HSO business manufactures high performance aluminium defence vessels for markets worldwide, excluding the USA.

USA Operations

The USA manufactures high performance aluminium defence vessels for the U.S. Navy.

Service & Systems Operations

The Service business provides training and on-going support and maintenance for high performance vessels and includes the chartering of a vessel to the U.S. Navy's Military Sealift Command.

Philippines Shipyard Operations ("PSO")

The PSO business manufactures high performance aluminium commercial vessels for markets worldwide, excluding the USA.

Other/Unallocated

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

- Cost of group services
- Corporate overheads
- Revenue from property leased to other group segments
- Finance revenue and costs
- Taxation
- Assets held for sale
- Derivatives
- Commercial vessel charter contracts

Accounting policies and inter-segment transactions

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

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

NOTE 4. OPERATING SEGMENTS (continued)

	HSO $'000	USA $'000	PSO $'000	Service & Systems $'000	Other / Unallocated $'000	Eliminations / Adjustments $'000	Total $'000
Year Ended 30 June 2013							
Revenues							
External customers	59,417	749,383	33,057	46,377	12,348	-	900,582
Inter-segment	30,928	-	6,929	12,585	2,333	(52,775)	-
Total revenues (i)	**90,345**	**749,383**	**39,986**	**58,962**	**14,681**	**(52,775)**	**900,582**
Segment result (EBIT) (ii)	**506**	**39,184**	**5,020**	**(465)**	**(16,156)**	**9,977**	**38,066**
Depreciation and amortisation	(1,030)	(18,708)	(708)	(809)	(3,254)	-	(24,509)
Gain on deferred premium	-	-	-	-	3,352	-	3,352
Segment assets	101,393	604,650	41,621	44,994	421,830	(269,870)	944,618
Segment liabilities	(44,944)	(517,244)	(36,960)	(46,411)	(72,492)	180,619	(537,431)
Year Ended 30 June 2012							
Revenues							
External customers	48,993	570,300	1,942	30,238	878	-	652,351
Inter-segment	14,740	-	-	2,600	2,010	(19,350)	-
Total revenues (i)	**63,733**	**570,300**	**1,942**	**32,838**	**2,888**	**(19,350)**	**652,351**
Segment result (EBIT) (ii)	**(13,653)**	**15,796**	**(798)**	**405**	**31,064**	**(16,237)**	**16,577**
Depreciation and amortisation	(1,597)	(12,256)	(142)	(841)	(1,488)	-	(16,324)
Gain on deferred premium	-	-	-	-	5,114	-	5,114
Segment assets	130,294	480,586	-	331	327,546	(112,770)	825,987
Segment liabilities	(62,316)	(421,479)	(813)	(1,449)	(71,479)	8,596	(548,940)

Eliminations and adjustments

Inter-segment revenues, investments, receivables and payables are eliminated on consolidation.

Reconciliation of Other / Unallocated	2013 $'000	2012 $'000
Revenues		
Sale of stock yacht	9,302	-
Intercompany rental revenue	2,333	2,689
Finance revenue	2,012	123
Other	1,034	76
Total	14,681	2,888
Segment result (EBIT)		
Profit / (loss) on foreign exchange	(12,942)	27,726
Net profit / (loss) on sale of stock yacht	(4,327)	-
Other	1,113	3,338
Total	(16,156)	31,064

NOTE 4. OPERATING SEGMENTS (continued)

Reconciliation of Other / Unallocated	2013 $'000	2012 $'000
Segment assets		
Intercompany receivables	150,883	116,041
Other financial assets	91,306	91,306
Cash and restricted cash	70,698	554
Property, plant and equipment	48,904	62,630
Inventories	46,297	3,434
Derivatives	13,742	23,690
Other	-	29,891
Total	421,830	327,546
Segment liabilities		
Deferred tax liabilities and income tax payable	(34,525)	(47,438)
Interest bearing loans	(17,470)	(23,024)
Derivatives	(12,194)	-
Other	(8,303)	(1,017)
Total	(72,492)	(71,479)

Reconciliation of segment result	2013 $'000	2012 $'000
Segment profit	38,066	16,577
Finance income	2,231	645
Finance expenses	(13,571)	(4,665)
Consolidated profit before income tax	**26,726**	**12,557**

Reconciliation of segment revenue	2013 $'000	2012 $'000
Segment revenue	900,582	652,351
Finance income	2,231	645
Consolidated revenue	**902,813**	**652,996**

During the current and prior year one customer in the USA segment generated revenue of $736.084 million (2012: $570.300 million). In the current financial year one customer in the HSO segment generated revenue of $59.233 million (2012: $20.281 million).

Revenue from external customers by geographical location of customers:	2013 $'000	2012 $'000
North America	749,382	570,300
Europe	14,887	23,594
Asia	35,478	12,237
Australia	86,806	31,218
Other	16,260	15,647
Total	**902,813**	**652,996**

	Notes	2013 $'000	2012 $'000
Non-current assets, other than financial instruments and deferred tax assets by geographical location:			
USA		317,799	288,314
Philippines		13,495	10,174
Cyprus		16,977	12,448
Australia		64,172	59,447
Total		**412,443**	**370,383**

NOTE 4. OPERATING SEGMENTS (continued)

	Notes	2013 $'000	2012 $'000
Non-current assets, by geographical location comprise:			
Property, plant and equipment	12	399,917	370,383
Intangible assets	13	12,526	5,045
Total		**412,443**	**375,428**

NOTE 5. INCOME TAX

	2013 $'000	2012 $'000
The major components of income tax expense are:		
Statement of comprehensive income		
Current income tax		
Current income tax charge	13,334	(6,826)
Adjustments in respect of current income tax of the previous year	(8,686)	636
Deferred income tax		
Relating to origination and reversal of temporary differences	(5,128)	7,704
Adjustments in respect of deferred income tax of the previous year	(8,536)	-
Income tax expense/(benefit) reported in the statement of comprehensive income	**(9,016)**	**1,514**
Statement of changes in equity		
Deferred income tax related to items charged or credited directly to equity		
Deferred gains and losses on foreign currency contracts and consolidation adjustments	(9,894)	(10,675)
Capital raising costs	(784)	-
Deferred gains on revaluation of property, plant and equipment	-	14,662

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:

	2013 $'000	2012 $'000
Accounting profit/(loss) before income tax from continuing operations	26,726	12,557
At the Group's statutory income tax rate of 30% (2012: 30%)	8,018	3,767
Adjustment for Austal USA statutory income tax rate of 36.9% (2012: 36.9%)	809	2,144
Other foreign tax rate differences	960	(292)
Branch (profit)/loss	(1,714)	-
US section 199 domestic manufacturing deduction	(1,077)	-
Other non-assessable or non-deductible items	3,940	234
Utilisation of research and development and other tax offsets and credits	-	(4,339)
Unrealised foreign exchange losses on intercompany loans	(2,730)	-
Adjustments in respect of current and deferred income tax of the previous year^	(17,222)	-
Income tax expense/(benefit) reported in the statement of comprehensive income	**(9,016)**	**1,514**

^ The adjustment represents:
(i) Research and development tax benefits associated with prior years which were recognised during the year based on ongoing assessments ($11.120 million);
(ii) Adjustments arising from the submission of the 2012 tax returns ($6.102 million).

NOTE 5. INCOME TAX (continued)

	Statement of Financial Position		Statement of Comprehensive Income	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
Deferred income tax- USA				
Deferred tax assets				
Payables	27,631	6,456	(21,175)	(6,047)
Provisions	2,919	2,013	(906)	(478)
Losses available for offset against future taxable income	8,713	6,315	(2,398)	261
Research and development tax credits	3,641	3,949	308	(3,949)
Work Opportunity Tax Credits	457	390	(67)	(390)
Charitable donations	34	32	(2)	(32)
	43,393	**19,155**	**(24,238)**	**(10,635)**
Deferred tax liabilities				
Property, plant and equipment	(18,899)	(18,775)	124	16,717
Inventories	(1,847)	-	1,847	-
	(20,746)	**(18,775)**	**1,971**	**16,717**
Net deferred tax assets - USA	**22,647**	**380**		
Deferred income tax- Australia				
Deferred tax assets				
Payables	3,232	6,384	3,153	607
Provisions	4,048	4,261	213	1,623
Deferred gains and losses on foreign currency contracts	2,304	(11,617)	(13,921)	512
Undeducted s.40-880 costs	627	-	(627)	-
Undeducted borrowing costs	-	62	62	-
Losses available for offset against future taxable income	-	1,053	1,053	688
Research and development and other tax offsets	202	-	(202)	-
	10,414	**143**	**(10,271)**	**3,430**
Deferred tax liabilities				
Property, plant and equipment	(6,185)	(6,056)	129	(13)
Inventories	(15,305)	(13,735)	1,570	(1,795)
	(21,490)	**(19,791)**	**1,699**	**(1,808)**
Net deferred tax liabilities - Australia	**(11,076)**	**(19,648)**		
Deferred tax expense/(income)			**(30,839)**	**7,704**

NOTE 5. INCOME TAX (continued)

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 statement of financial position and their tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses assumed by the head entity from the subsidiaries in the tax consolidated group are recognised in conjunction with any tax funding arrangement amounts (refer below).

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses assumed from subsidiaries are recognised by the head entity only.

The members of the tax-consolidated group have entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity.

In preparing the accounts for the parent company for the current year, no amounts have been recognised as tax consolidation contribution/distribution adjustments.

NOTE 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:

	2013 $'000	2012 $'000	2013 Number	2012 Number
Net profit attributable to ordinary equity holders of the parent from continuing operations	35,870	11,043		
Weighted average number of ordinary shares (excluding reserved shares) for basic earnings per share			271,713,717	183,766,205
Effect of dilution – share options			522,537	462,579
Weighted average number of ordinary shares (excluding reserved shares) adjusted for the effect of dilution			272,236,254	184,288,742
Earnings per share (cents per share)	12.03	4.62		
Diluted earnings per share (cents per share)	12.01	4.61		

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. 9,139,165 (2012: 11,273,611) potential ordinary shares have been excluded from the earnings per share calculation as they were not considered dilutive.

Basic and diluted earnings per share for all periods prior to the Entitlement on 22 November 2012 have been restated by an adjustment factor of 1.30 to account for the bonus element. Details of the shares issued are outlined in note 20.

NOTE 7. DIVIDENDS PAID AND PROPOSED

	2013 $'000	2012 $'000
Paid during the year		
Dividends on ordinary shares:		
Final franked dividend for year ended 30 June 2012: nil cents (2011: 6 cents)	-	11,284

The tax rate at which paid dividends have been franked is 30% (2012: 30%). Dividends proposed will be franked at the rate of 30% (2012: 30%). No dividend was proposed at 30 June 2013.

Franking credit balance

	2013 $'000	2012 $'000
Opening balance	-	-
Franking credits that arose from the payment of income tax instalments during the year	583	-
Closing balance	**583**	**-**

NOTE 8. CASH AND CASH EQUIVALENTS

	2013 $'000	2012 $'000
Current		
Cash at bank and in hand	38,030	51,811
Restricted cash:		
Unutilised Go Zone Bond funds (i)	11,617	52,940
Cash and term deposits (ii)	58,056	-
	69,673	**52,940**

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	38,030	51,811
Restricted	69,673	52,940
	107,703	**104,751**

(i) Unutilised Go Zone Bonds may only be spent on those capital works projects that were specifically identified in the documentation issued to investors.

(ii) Current restricted cash represents partial proceeds from the FY2013 capital raising that will be used in FY2014 to retire Go Zone debt.

NOTE 8. CASH AND CASH EQUIVALENTS (continued)

	2013 $'000	2012 $'000
Reconciliation of net profit after tax to net cash flows from operations		
Net profit	35,742	11,043
Adjustments for:		
Depreciation	21,914	14,457
Amortisation	2,595	1,867
Impairment of non-current assets	-	45
Net gain on disposal of property, plant and equipment	114	(4,269)
Share based payments	1,263	1,603
Unrealised (gain)/loss on deferred premium options and other derivative financial instruments	-	(5,114)
Changes in assets and liabilities:		
(Decrease)/increase in provisions for:		
Income tax (current and deferred)	(33,697)	11,227
Workers' compensation insurance	526	262
Warranty	3,989	(7,333)
Employee benefits	32	(1,148)
Other provisions	2,488	(17)
(Increase)/decrease in debtors	(6,553)	(74,189)
(Increase)/decrease in inventories	(84,359)	(15,606)
(Increase)/decrease in other assets	(4,312)	(788)
(Increase)/decrease in other financial assets	-	(6,156)
(Decrease)/increase in trade creditors	5,187	75,793
(Decrease)/increase in progress payments in advance	(5,498)	24,611
(Decrease)/increase in government grants	4,701	6,848
Net cash (outflow)/inflow from operating activities	(55,868)	33,136

NOTE 9. TRADE AND OTHER RECEIVABLES

	2013 $'000	2012 $'000
Current		
Trade amounts owing by unrelated entities – construction contracts (i)	104,130	96,586
Allowance account for doubtful debts (ii)	(1,387)	(414)
	102,743	**96,172**
Non-current		
Trade amounts owing by unrelated entities	-	18

(i) Current trade amounts owing by unrelated entities are generally on 30 day terms.

(ii) During the year the group provided for $2.19 million (2012: $0.414 million) as an allowance account for doubtful debts. These allowance accounts have been created in relation to specific debtors whose debts were past due. The Group is currently negotiating payment arrangements with these debtors, however there is objective evidence that these debts are impaired.

NOTE 9. TRADE AND OTHER RECEIVABLES (continued)

As at 30 June 2013, trade receivables of an initial value of $2.198 million (2012: $0.414m) were impaired and fully provided for. See below for the movements in the provision for impairment of receivables:

	Individually impaired $'000	Total $'000
At 1 July 2011	1,863	1,863
Charge for the year	414	414
Utilised	(1,863)	(1,863)
Unused amounts reversed	-	-
At 30 June 2012	**414**	**414**
Charge for the year	1,784	1,784
Utilised	-	-
Unused amounts reversed	-	-
At 30 June 2013	**2,198**	**2,198**

For ageing of debtors refer to note 21.

NOTE 10. INVENTORIES

	2013 $'000	2012 $'000
Construction work in progress – total amounts due from customers on construction contracts and stock vessels at cost	2,503,102	1,557,303
Less: progress payments received and receivable from construction contracts	(2,225,910)	(1,363,830)
	277,192	**193,473**
Materials	696	56
Total inventories	**277,888**	**193,529**

NOTE 11. PREPAYMENTS

	2013 $'000	2012 $'000
Current		
Prepayments	7,653	6,538

NOTE 12. PROPERTY, PLANT AND EQUIPMENT

	Freehold land & buildings $'000	Plant & equipment $'000	Capital WIP $'000	Total $'000
Year ended 30 June 2013				
At 1 July 2012 – cost or valuation				
Carrying amount net of accumulated depreciation and impairment	273,700	67,630	29,053	370,383
Additions	5,573	14,270	1,422	21,265
Transfer (in/(out)	29,585	(310)	(29,275)	-
Disposals	(43)	(430)	-	(473)
Depreciation charge for the year	(8,817)	(14,258)	(455)	(23,530)
Impairment	-	-	324	324
Exchange adjustment	23,880	4,992	3,076	31,948
At 30 June 2013, carrying amount net of accumulated depreciation and impairment	**323,878**	**71,895**	**4,144**	**399,917**
At 1 July 2012				
Fair value	273,700	-	-	273,700
Cost	-	110,946	29,053	139,999
Accumulated depreciation and impairment	-	(43,316)	-	(43,316)
Net carrying amount	**273,700**	**67,630**	**29,053**	**370,383**
At 30 June 2013				
Fair value	332,695	-	-	332,695
Cost	-	127,250	4,599	131,849
Accumulated depreciation and impairment	(8,817)	(55,355)	(455)	(64,627)
Net carrying amount	**323,878**	**71,895**	**4,144**	**399,917**

Interest capitalised to capital work in progress during the year was $0.273 million (2012: $0.975 million).

NOTE 12. PROPERTY, PLANT AND EQUIPMENT (continued)

	Freehold land & buildings $'000	Plant & equipment $'000	Capital WIP $'000	Total $'000
Year ended 30 June 2012				
At 1 July 2011 – cost or valuation				
Carrying amount net of accumulated depreciation and impairment	143,177	42,378	22,720	208,275
Additions	83,684	39,892	7,883	131,459
Transfer in/(out)	14,484	(6,732)	(7,752)	-
Transfer to Held for sale assets ^	(1,561)	-	-	(1,561)
Disposals	(2,787)	(6)	-	(2,793)
Depreciation charge for the year	(5,957)	(8,500)	-	(14,457)
Impairment	(45)	-	-	(45)
Revaluation	42,152	-	-	42,152
Exchange adjustment	553	598	6,202	7,353
At 30 June 2012, carrying amount net of accumulated depreciation and impairment	**273,700**	**67,630**	**29,053**	**370,383**
At 1 July 2011				
Cost	171,855	77,478	22,720	272,053
Accumulated depreciation and impairment	(28,678)	(35,100)	-	(63,778)
Net carrying amount	**143,177**	**42,378**	**22,720**	**208,275**
At 30 June 2012				
Fair value	273,700	-	-	273,700
Cost	-	110,946	29,053	139,999
Accumulated depreciation and impairment	-	(43,316)	-	(43,316)
Net carrying amount	**273,700**	**67,630**	**29,053**	**370,383**

(i) The useful life of the assets was estimated as follows both for 2013 and 2012:

Building 40 years

Plant and equipment 2 to 10 years

(ii) Assets are encumbered to the extent noted in note 16.

^ The property classified as Held for Sale was subsequently sold in July 2012.

Revaluation of Land & Buildings
From 29 June 2012, the Group changed its accounting policy for the measurement of land and buildings to the revaluation model. The Group engaged CB Richard Ellis and Knight Frank to determine the fair value of its land and buildings for USA and Australia respectively. Both firms are accredited independent valuers.

Fair value is determined by use of the depreciation replacement cost method. The last revaluation was performed on 29 June 2012.

If land and buildings were measured using the cost model, the carrying amount would be as follows:

	2013 $'000	2012 $'000
Cost	313,594	254,599
Accumulated depreciation and impairment	(38,517)	(29,700)
Net Carrying Amount	**275,077**	**224,899**

NOTE 13. INTANGIBLE ASSETS

	Computer Software $'000	Development costs $'000	Goodwill $'000	Total $'000
Year ended 30 June 2013				
At 1 July 2012				
Carrying amount net of accumulated amortisation	4,381	664	-	5,045
Additions	2,942	536	-	3,478
Business acquisition	-	-	6,463	6,463
Amortisation for the year	(2,730)	(68)	-	(2,798)
Exchange adjustment	338	-	-	338
At 30 June 2013, carrying amount net of accumulated amortisation and impairment	**4,931**	**1,132**	**6,463**	**12,526**
At 1 July 2012				
Cost	10,673	664	-	11,337
Accumulated amortisation and impairment	(6,292)	-	-	(6,292)
Net carrying amount	**4,381**	**664**	**-**	**5,045**
At 30 June 2013				
Cost	14,291	1,200	6,463	21,616
Accumulated amortisation and impairment	(9,022)	(68)	-	(9,090)
Net carrying amount	**4,931**	**1,132**	**6,463**	**12,526**

During the year the Austal Service Darwin Pty Ltd acquired 100% of the ordinary shares in KM Engineering (NT) Pty Ltd ("KME") and Hydraulink (NT) Pty Ltd ("Hydraulink").

The consolidated Group recognised $6.4 million of Goodwill upon acquisition. Goodwill is not amortised.

Impairment testing of goodwill and intangible assets with indefinite lives

Goodwill acquired through business combinations and licences with indefinite lives has been allocated to the Service & Systems CGU, which are also operating and reportable segments for impairment testing:

The Group performed its annual impairment test at 30 June 2013 (refer to Note 30). The recoverable amount of the Service and Systems CGU has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. Cash flow projections incorporate a pre-tax discount rate of 15.5% (representing an estimation of the weighted average cost of capital), cash flows beyond the five-year period are extrapolated using a 3.0% growth rate that is the same as the long-term average growth rate for the ship building industry and incorporate average gross margins of 15-25 per cent representing historical margins. It was concluded that the recoverable amount is greater than the carrying amount. As a result of this analysis, management has concluded that no impairment charge is required.

Key assumptions used in value in use calculations

The calculation of value in use for the Service and Systems CGU is most sensitive to the following assumptions:

- Gross margins
- Discount rates
- Growth rates used to extrapolate cash flows beyond the forecast period

Sensitivity to changes in assumptions

For the Service and Systems CGU the estimated recoverable amount is $0.486 million above the carrying value of the assets within the CGU. Consequently, any adverse change in a key assumption is likely to result in an impairment loss.

NOTE 14. DERIVATIVES

	2013 $'000	2012 $'000
Financial assets		
Current		
Forward exchange contracts	7,749	31,830
Forward currency options	-	4,211
	7,749	**36,041**
Non-current		
Forward exchange contracts	1,651	10,625
Financial liabilities		
Current		
Forward exchange contracts	12,193	2,186
Non-current		
Forward exchange contracts	4,885	5,757

For terms and conditions attached to the forward exchange contracts and forward currency options, refer to note 22.

NOTE 15. TRADE AND OTHER PAYABLES

	2013 $'000	2012 $'000
Current		
Trade & other payables owed to unrelated entities (i)	133,813	128,626

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

NOTE 16. INTEREST BEARING LOANS AND BORROWINGS

A new syndicated bank facility agreement was executed subsequent to 30 June 2013 (refer Note 25). The new agreement had not been executed at reporting date and therefore the debt associated with the new facility has been designated as a Current Liability. The debt was reclassified as a Non Current Liability as of the 19th of July 2013.

	Notes	2013 $'000	2012 $'000
Current			
Multi-Option Facility (i)		8,000	-
Equipment line (ii)		22,283	2,438
Bank Loan (unsecured) (iii)		8,307	13,553
Go Zone Bonds (iv)		204,974	-
Overdrafts		50	-
Deferred option premium (unsecured) (v)		-	2,982
		243,614	**18,973**
Non-current			
Multi-Option Facility (i)		-	-
Equipment line (ii)		-	17,557
Bank Loan (unsecured) (iii)		1,163	9,470
Go Zone Bonds (iv)		-	219,417
Overdrafts		-	-
Deferred option premium (unsecured) (v)		-	-
		1,163	**246,444**

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

(i) Cash advance was provided under the Multi Option facility.

(ii) The Equipment line expires in December 2015.

(iii) The Bank loan is payable by instalments until October 2014, with an average variable interest rate of 5% in FY13.

(iv) The Go Zone Bonds of US$ 190.010 million are variable rate demand bonds and mature on 1 May 2041, payable in US dollars with an average interest rate of approximately 4% in FY2013.

(v) The deferred option premium was payable in US dollars upon exercising of the options.

The loans and facilities incur interest at various average rates between 4% and 7%.

NOTE 16. INTEREST BEARING LOANS AND BORROWINGS (continued)

	2013 $'000	2012 $'000
Financing facilities available		
At reporting date, the following financing facilities had been negotiated and were available:		
Total facilities:		
- Multi-Option Facility (a)	91,500	193,100
- Equipment line	22,283	29,251
- Bank Loan (unsecured) (b)	9,470	42,977
- Go Zone Bonds (b)	204,974	221,529
- Overdraft (b)	50	-
- Deferred option premium (unsecured)	-	2,982
Total	**328,277**	**489,839**
Facilities used at reporting date		
- Multi-Option Facility (a)	34,933	38,037
- Equipment line	22,283	19,995
- Bank Loan (unsecured) (b)	9,470	23,023
- Go Zone Bonds	204,974	219,417
- Overdraft (b)	50	-
- Deferred option premium (unsecured)	-	2,982
Total	**271,710**	**303,454**

	2013 $'000	2012 $'000
Facilities unused at reporting date:		
- Multi-Option Facility (a)	56,567	155,063
- Equipment line	-	9,256
- Bank Loan (unsecured) (b)	-	19,954
- Go Zone Bonds	-	2,112
- Overdraft (b)	-	-
- Deferred option premium (unsecured)	-	-
Total	**56,567**	**186,385**

(a) Multi-option facility consists of bank and performance guarantees, letters of credit and cash advances.

(b) Bank loan is guaranteed by a third party.

NOTE 17. GOVERNMENT GRANTS

	2013 $'000	2012 $'000
Current		
Infrastructure development (i)	4,221	3,561
Non-current		
Infrastructure development (i)	52,794	48,753

The grants were received from various government bodies in Alabama to fund the expansion of the company's Mobile, USA operations.

(i) The grants are amortised, on a straight line basis, based on the effective life of the funded assets.

NOTE 18. PROVISIONS

	Employee benefits $'000	Workers' compensation $'000	Warranty $'000	Other $'000	Total $'000
At 1 July 2012	11,161	5,923	2,521	705	20,310
Arising during the year	12,823	538	7,331	2,727	23,419
Utilised	(9,899)	(206)	(3,342)	(307)	(13,754)
Unused amounts reversed	(2,892)	-	-	-	(2,892)
Effects of foreign exchange		194	-	68	262
At 30 June 2013	**11,193**	**6,449**	**6,510**	**3,193**	**27,345**
Current 2013	10,088	6,449	6,510	2,081	25,128
Non-current 2013	1,105	-	-	1,112	2,217
At 30 June 2013	**11,193**	**6,449**	**6,510**	**3,193**	**27,345**
Current 2012	9,806	5,923	2,521	-	18,250
Non-current 2012	1,355	-	-	705	2,060
At 30 June 2012	**11,161**	**5,923**	**2,521**	**705**	**20,310**

Workers compensation insurance

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

Warranties

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

Other

Other includes a provision for refitting a military vessel to return it to a passenger ferry specification (2012: provision for refitting a military vessel to return it to a passenger ferry specification).

NOTE 19. OTHER LIABILITIES (CURRENT)

	2013 $'000	2012 $'000
Progress payments received and receivable	71,638	73,549
Less: construction work in progress	(49,848)	(46,261)
Progress payments received in advance	**21,790**	**27,288**

NOTE 20. CONTRIBUTED EQUITY AND RESERVES

	2013 $'000	2012 $'000
Ordinary shares (i)	120,940	41,373
Reserved shares (ii)	(9,611)	(9,611)
	111,329	**31,762**

(i) Ordinary shares		
Issued and fully paid	120,940	41,373

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.

	2013		2012	
	Number of shares	$'000	Number of shares	$'000
Movement in ordinary shares on issue				
At 1 July	188,193,007	41,373	188,193,007	41,373
Share issued during the year*	157,980,188	79,567	-	-
At 30 June	346,173,195	120,940	188,193,007	41,373
*(ii) Reserved shares^*				
At 1 July	(4,390,601)	(9,611)	(4,390,601)	(9,900)
Options exercised	-	-	40,000	289
At 30 June	(4,350,601)	(9,611)	(4,350,601)	(9,611)

*Movement of 157,980,188 comprises of;

(a) 155,333,042 ordinary shares issued at a price of $0.50 per share in relation to the 9 for 10 Entitlement Offer contributing $75.842 million net of costs.

(b) 2,481,566 ordinary shares issued at a price of $1.41 per share in exchange for 80% of the share capital in Austal Service Darwin Pty Ltd valued at $3.498 million (refer to Note 30).

(c) 165,556 shares issued to Mr Andrew Bellamy on 30 November 2012 as part of his contract of employment at a value of $0.223 million.

^Reserved shares are in relation to shares held in the Austal Group Management Share Plan (refer to note 28).

Retained earnings

	2013 $'000	2012 $'000
Movements in retained earnings were as follows:		
Balance 1 July	222,690	222,931
Net profit for the year	35,870	11,043
Dividends	-	(11,284)
	258,560	**222,690**

NOTE 20. CONTRIBUTED EQUITY AND RESERVES (continued)

Reserves

	Foreign currency translation reserve	Employee benefit reserve	Cash flow hedge reserve	Equity reserve	Asset revaluation reserve	Total
	$'000	$'000	$'000	$'000	$'000	$'000
At 1 July 2011	**(8,865)**	**3,345**	**41,508**	**(15,925)**	**-**	**20,063**
Currency translation differences, net of tax	(1,703)	-	-	-	-	(1,703)
Share based payment	-	1,603	-	-	-	1,603
Net gains on cash flow hedges, net of tax	-	-	(19,745)	-	-	(19,745)
Revaluation of land & buildings, net of tax	-	-	-	-	27,491	27,491
Transfer to Statements of Financial Position/ Comprehensive income	-	-	(5,114)	-	-	(5,114)
At 30 June 2012	**(10,568)**	**4,948**	**16,649**	**(15,925)**	**27,491**	**22,595**
Currency translation differences, net of tax	19,022	-	-	-	-	19,022
Share based payment	-	1,263	-	-	-	1,263
Net gains on cash flow hedges, net of tax	-	-	7,451	-	-	7,451
Revaluation of land & buildings, net of tax	-	-	-	-	-	-
Transfer to Statements of Financial Position/ Comprehensive income	-	-	(13,023)	-	-	(13,023)
At 30 June 2013	**8,454**	**6,211**	**11,077**	**(15,925)**	**27,491**	**37,308**

The nature and purpose of reserves are:

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 28 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.

Asset revaluation reserve

This reserve is used to record increases in the fair value of land and buildings. This reserve can only be used to pay dividends in limited circumstances.

NOTE 21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

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

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

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

Capital Management

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

The Group monitors statement of financial position strength and flexibility using cash flow forecast analysis and detailed budgeting processes. The gross gearing ratio is monitored and maintained at a level that does not limit the Company's growth opportunities and is in line with peers and industry norms.

There were no changes in the Group's approach to capital management during the year. Risk management policies and procedures are established with regular monitoring and reporting.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements, other than normal banking requirements.

Risk Exposures and Responses

Interest rate risk

The Group's exposure to market interest rates relates primarily to the Group's long-term debt obligations and investment in cash funds.

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

	2013 $'000	2012 $'000
Financial assets		
Australian variable interest rate		
Cash and cash equivalents	18,320	22,349
US variable interest rate		
Cash and cash equivalents	19,710	29,462
	38,030	**51,811**
Financial liabilities		
Australian variable interest rate		
Interest-bearing loans and borrowings	(17,520)	(26,005)
US variable interest rate		
Interest-bearing loans and borrowings	(227,257)	(239,412)
	(244,777)	**(265,417)**
Net exposure	**(206,747)**	**(213,606)**

NOTE 21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 date. At 30 June 2013, 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	
	2013	2012
	$'000	$'000
Judgement of reasonable possible movements:		
Post-tax gain/(loss)		
+ 1% (100 Basis points)	(1,447)	(1,495)
– 1% (100 Basis points)	1,447	1,495

Foreign currency risk

At balance date, the Group had the following exposure to the US Dollar:

	2013	2012
	$'000	$'000
Financial liabilities		
US Dollar exchange rate		
Interest-bearing loans and borrowings	227,257	239,412

Refer to Note 14 for Derivatives.

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, GBP and Euro.

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; and

(iii) using financial instruments (refer Note 22).

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 Company seeks to cover that exposure by a rise and fall clause for exchange rate movements between the date of price calculation to the date the contract becomes effective.

Known foreign exchange transaction exposure, which result from normal operational business activities are hedged.

At balance date, had the Australian Dollar moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

	Post tax profit higher/(lower)		Equity higher/(lower)	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
Judgement of reasonable possible movements:				
AUD/USD +5%	3,316	1,197	3,764	5,279
AUD/USD –5%	(3,439)	(2,787)	(3,505)	(5,705)
AUD/EUR +5%	17	125	(1,172)	(1,142)
AUD/EUR –5%	(17)	(125)	1,172	1,260
USD/EUR +5%	-	-	-	(1,243)
USD/EUR –5%	-	-	-	(2,052)

NOTE 21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (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 22.

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 are conducted internally. The Group, while exposed to credit related losses in the event of non-performance by counterparties to financial instruments, does not expect counterparties to fail to meet their obligations given their credit ratings.

The Group minimises concentrations of credit risk and the risk of default of counterparties in relation to cash and cash equivalents and financial instruments by spreading them amongst a number of financial institutions.

It is the Group's policy to minimise the risk that the principle amount will not be recovered and the risk that funds will not be available when required whilst at the same time obtaining the maximum return relative to the risk. To manage this, it is the Group's policy to restrict its investment of surplus cash funds to financial institutions with a Standard and Poor credit rating of at least A-2, and for a period not exceeding 180 days. In order to achieve this objective the Group undertakes investments in 11am/24 hour call deposits, term deposits or 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 credible 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 22.

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	Impaired	0-30 days	31-60 days	61-90 days	90+days
	$'000	$'000	$'000	$'000	$'000	$'000
2013	**102,743**	**(1,387)**	**94,422**	**3,452**	**677**	**5,579**
2012	96,172	(414)	92,216	1,917	470	1,983

Receivable balances are monitored on an ongoing basis.

NOTE 21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The liquidity position of the Group is managed to ensure sufficient liquid funds are available to meet our financial commitments in a timely and cost-effective manner.

It is the Group's policy to continually review the Group's liquidity position including cash flow forecasts to determine the forecast liquidity position and maintain appropriate liquidity levels. Austal was in the process of finalising a new syndicated banking facility at the reporting date. Execution of the new facility was achieved subsequent to the year end on the 19 July 2013 which provides credit until 31 December 2015 and the reclassification of a significant portion of current liabilities as non-current liabilities subsequent to the reporting date.

The following are the contractual maturities of financial liabilities, including interest payments:

	Carrying amount $'000	Contractual cash flows $'000	0-1 year $'000	1-2 years $'000	2-5 years $'000	Greater than 5 years $'000
Year ended 30 June 2013						
Derivative financial liabilities						
Forward exchange contracts used for hedging:						
Outflow	-	(248,098)	(155,105)	(59,776)	(33,307)	-
Inflow	-	262,632	162,502	62,111	38,019	-
Net derivative financial (assets)/liabilities	**7,678**	**14,534**	**7,397**	**2,335**	**4,712**	**-**
Non-derivative financial liabilities						
Trade & other payables	133,813	(133,813)	(133,813)	-	-	-
Bank loan (unsecured)	9,470	(9,706)	(8,529)	(1,177)	-	-
Equipment Line (secured)	22,283	(23,174)	(23,174)	-	-	-
Go Zone bond facility	204,974	(377,151)	(377,151)	-	-	-
Total	**370,540**	**(543,844)**	**(542,667)**	**(1,177)**	**-**	**-**

	Carrying amount $'000	Contractual cash flows $'000	0-1 year $'000	1-2 years $'000	2-5 years $'000	Greater than 5 years $'000
Year ended 30 June 2012						
Derivative financial liabilities						
Forward exchange contracts used for hedging:						
Outflow	-	(107,599)	(72,065)	(18,088)	(17,446)	-
Inflow	-	171,721	105,932	30,586	35,203	-
Net derivative financial (assets)/liabilities	**(38,723)**	**64,122**	**33,867**	**12,498**	**17,757**	**-**
Non-derivative financial liabilities						
Trade & other payables	128,626	(128,626)	(128,626)	-	-	-
Bank loan (unsecured)	23,023	(37,449)	(9,845)	(15,438)	(12,166)	-
Equipment Line (secured)	19,995	(20,793)	(6,931)	(6,931)	(6,931)	-
Go Zone bond facility	219,417	(412,505)	(8,777)	(6,583)	(19,748)	(377,397)
Deferred option premium (unsecured)	2,982	(2,982)	(2,982)	-	-	-
Total	**394,043**	**(602,355)**	**(157,161)**	**(28,952)**	**(38,845)**	**(377,397)**

At balance date, the Group has approximately $56.567 million (2012: $186.385 million) of unused credit facilities available for its immediate use (refer to note 16). The Group also has a total of $38.030 million (2012: $51.811 million) in cash and cash equivalents, which it is able to use to meet its liquidity needs.

NOTE 22. FINANCIAL INSTRUMENTS

Fair values

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

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

	Carrying amount		Fair value	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
Financial assets				
Cash	107,703	104,751	107,703	104,751
Trade receivables & other receivables	102,743	96,172	102,743	96,172
Derivatives	9,400	46,666	9,400	46,666
Other financial assets	4,141	944	4,141	944
Financial liabilities				
Trade payables & other payables	(133,813)	(128,626)	(133,813)	(128,626)
Derivatives	(17,078)	(7,943)	(17,078)	(7,943)
Multi-Option facility	(8,000)	-	(8,000)	-
Bank loan (unsecured)	(9,470)	(23,023)	(9,470)	(23,023)
Deferred option premium (unsecured)	-	(2,982)	-	(2,982)
Equipment line (secured)	(22,283)	(19,995)	(22,283)	(19,995)
Go Zone bonds	(204,974)	(219,417)	(204,974)	(219,417)
Overdraft	(50)	-	(50)	-

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

Contingencies

The Group entities may have potential financial liabilities that could arise from certain contingencies as disclosed in note 23. As explained in that note, no material losses are anticipated in respect of any of those contingencies. The fair value disclosed (if any) is the directors' best estimate of amounts that would be payable by the Group to settle those financial liabilities.

Hedging and derivatives

Instruments used by the Group

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

Forward currency contracts – cash flow hedges

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

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 statement of financial position for vessels in progress or to the sales and cost of sales account in the statement of comprehensive income for completed vessels.

The following table summarises by currency the Australian dollar value of forward foreign exchange agreements and forward currency options. Foreign currency amounts are translated at rates current at the reporting date. The 'buy' amounts represent the Australian dollar equivalent of commitments to purchase foreign currencies, and the 'sell' amount represents the Australian dollar equivalent of commitments to sell foreign currencies. Contracts to buy and sell foreign currency are entered into from time to time to offset purchase and sale obligations so as to maintain a properly hedged position.

NOTE 22. FINANCIAL INSTRUMENTS (continued)

Forward currency contracts – cash flow hedges (continued)

	2013				2012			
	Average Forward/ Strike Rate	Buy $000	Average Forward/ Strike Rate	Sell $000	Average Forward Rate	Buy $000	Average Forward Rate	Sell $000
United States Dollars								
Forward exchange contracts								
less than 3 months	1.0305	81	0.9215	6,507	-	-	-	-
3 - 12 months	1.0139	492	0.9593	95,628	-	-	0.7118	98,471
13 months or greater	0.6303	1,034	0.9190	29,231	0.6303	698	0.9060	53,894
		1,607		**131,366**		**698**		**152,365**
Forward currency options								
3 - 12 months	-	-	-	-	-	-	-	-
13 months or greater	-	-	-	-	-	-	0.6600	10,831
		-		**-**		**-**		**10,831**
Euro								
Forward exchange contracts								
less than 3 months	0.5511	153	0.7445	53	0.5754	293	-	-
3 - 12 months	0.5434	310	0.7992	130	0.5625	449	-	-
13 months or greater	0.5311	476	0.8019	2,640	0.5385	939	0.8079	619
		939		**2,823**		**1,681**		**619**
US/Euro								
Forward exchange contracts								
less than 3 months	0.9296	34,825	0.9529	24,824	1.064	4,943	-	-
3 - 12 months	-	-	0.9584	17,976	1.065	4,943	1.0544	22,973
13 months or greater	-	-	0.9813	26,146	1.067	30,586	1.1535	46,905
		34,825		**68,946**		**40,472**		**69,878**
Forward currency options								
3 - 12 months	-	-	-	-	1.031	16,682	-	-
13 months or greater	-	-	-	-	-	-	-	-
		-		**-**		**16,682**		**-**

NOTE 22. FINANCIAL INSTRUMENTS (continued)

Forward currency contracts – cash flow hedges (continued)

	2013				2012			
	Average Forward/ Strike Rate	Buy $000	Average Forward/ Strike Rate	Sell $000	Average Forward Rate	Buy $000	Average Forward Rate	Sell $000
GBP								
Forward exchange contracts								
less than 3 months	0.6360	116	-	-	-	-	0.6129	251
3-12 months	0.6222	154	0.5897	1,715	0.6272	80	0.6003	1,537
13 months or greater	0.6047	365	0.5548	4,902	-	-	0.5580	6,193
		635		**6,617**		**80**		**7,981**
US/GBP								
Forward exchange contracts								
less than 3 months	0.9730	836	0.9584	522	0.9975	306	-	-
3-12 months	0.9407	12,346	-	-	0.9956	383	-	-
13 months or greater	0.9275	2,584	-	-	0.9968	2,786	-	-
		15,766		**522**		**3,475**		**-**
NOK								
Forward exchange contracts								
less than 3 months	5.8355	18	-	-	-	-	-	-
3-12 months	5.6847	681	5.6106	474	-	-	-	-
13 months or greater	-	-	-	-	-	-	-	-
		699		**474**		**-**		**-**
NZD								
Forward exchange contracts								
less than 3 months	1.2565	15	-	-	-	-	-	-
3-12 months	1.2552	29	-	-	-	-	-	-
13 months or greater	1.2512	59	-	-	-	-	-	-
		103		**-**		**-**		**-**
JPY								
Forward exchange contracts								
less than 3 months	99.3500	12	-	-	-	-	-	-
3-12 months	-	-	-	-	-	-	-	-
13 months or greater	-	-	-	-	-	-	-	-
		12		**-**		**-**		**-**
SGD								
Forward exchange contracts								
less than 3 months	-	-	-	-	-	-	-	-
3-12 months	-	-	-	-	-	-	-	-
13 months or greater	1.1721	49	-	-	-	-	-	-
		49		**-**		**-**		**-**
EUR/GBP								
Forward exchange contracts								
less than 3 months	-	-	-	-	-	-	0.6756	231
3-12 months	-	-	-	-	-	-	0.6767	177
13 months or greater	-	-	-	-	-	-	-	-
		-		**-**		**-**		**408**

* Relates to forward exchange contracts.

NOTE 22. FINANCIAL INSTRUMENTS (continued)

Movement in forward currency contract cash flow hedge reserve

	2013 $'000	2012 $'000
Opening balance	**16,649**	**41,508**
Transferred to inventory	(10,799)	(645)
Transferred to profit and loss	(2,224)	(4,469)
Charged to equity	7,451	(19,745)
Closing balance	**11,077**	**16,649**

NOTE 23. COMMITMENTS & CONTINGENCIES

Operating lease commitments

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

	2013 $'000	2012 $'000
Within one year	1,125	1,771
After one year but not more than five years	1,496	2,619
	2,621	**4,390**

Capital commitments

	2013 $'000	2012 $'000
Buildings – USA	16	6,189

Guarantees

	2013 $'000	2012 $'000
Bank performance guarantees (i)	26,933	38,037

(i) The bank performance guarantees and Go Zone Bonds are secured by a mortgage over the land and buildings and floating charges over cash, receivables, work in progress and plant and equipment (refer Note 16).

Other contingent liabilities excluded from the above include:

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

Austal has received notice of Arbitration proceedings initiated by a commercial customer in FY2013. The claim is in respect of consequential damages arising from a warranty defect. The shipbuilding contract between the parties specifically excludes consequential damages in relation to warranty defects. The company intends to defend the claim.

NOTE 24. RELATED PARTY DISCLOSURE

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

		% Equity Interest	
	Country of incorporation	2013	2012
Austal Ships Pty Ltd	Australia	100	100
Oceanfast Pty Ltd	Australia	100	100
Image Marine Pty Ltd	Australia	100	100
Seastate Pty Ltd	Australia	100	100
Oceanfast Luxury Yachts Pty Ltd (formerly Oceanfast Properties Pty Ltd)	Australia	100	100
Austal Service Pty Ltd (formerly Oceanfast Motor Yachts Pty Ltd)	Australia	100	100
Austal Philippines Pty Ltd (formerly Austal Ships Sales Pty Ltd)	Australia	100	100
Austal Holdings Inc.	USA	100	100
Austal USA LLC	USA	100	100
Austal Hull 130 Chartering LLC	USA	100	100
Austal Muscat LLC	Oman	100	100
Austal Systems Pty Ltd (formerly Australian Technology Information Pty Ltd)	Australia	100	100
Hydraulink (NT) Pty Ltd*	Australia	80	-
KM Engineering (NT) Pty Ltd*	Australia	80	-
Austal Service Darwin Pty Ltd	Australia	80	-
Austal Cyprus Ltd	Cyprus	100	100
Austal UK Limited	United Kingdom	100	100

Austal Limited is the ultimate parent of the Group and is incorporated in Perth, Western Australia.
*100% owned by Austal Service Darwin Pty Ltd, which itself is 80% owned by Austal Service Pty Ltd.

Transactions with related parties

There were no transactions with related parties outside the Group during the year. The Group has a policy that all transactions with related parties are conducted on commercial terms and conditions.

NOTE 25. EVENTS AFTER THE BALANCE DATE

Austal executed a new Syndicated Facility Agreement which provides the following facilities through until 31 December 2015:

- US$190 million of Letters of Credit to support the Go Zone Bonds in the USA
- US$20.7 million of Equipment Asset Financing in the USA
- A$100 million of Performance Bonding and other Letters of Credit
- A$50 million of Revolving Credit Facility

The Board of Directors approved the redemption of US$54.960 million of Go Zone Bonds utilising restricted cash from the capital raising that was conducted in FY2013.

NOTE 26. AUDITOR'S REMUNERATION

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

	2013	2012
	$'000	$'000
Amounts received or due and receivable by Ernst & Young for:		
- an audit or review of the financial report of the entity and any other entity in the Group	560	493
- other services in relation to the entity and any other entity in the Group:		
- Tax compliance	33	35
Total	**593**	**528**

NOTE 27. KEY MANAGEMENT PERSONNEL COMPENSATION

(a) Compensation of Key Management Personnel

	2013	2012
Short-term employee benefits	2,969,391	3,304,903
Post-employment benefits	-	-
Termination benefits	332,647	-
Share-based payment	234,463	366,821
Total compensation	**3,536,501**	**3,671,724**

(b) Key Management Personnel Option Holdings

	Balance at beginning of year	Granted as Remuneration	Options Exercised	Net Change Other **	Balance at end of year	Vested Total	Vested Exercisable	Vested Not Exercisable
30 June 2013								
Directors								
M Atkinson	420,000	-	-	-	420,000	140,000	140,000	-
A Bellamy	280,000	-	-	-	280,000	-	-	-
Executives								
C Perciavalle	250,000	-	-	-	250,000	110,000	110,000	-
J Turano	-	-	-	-	-	-	-	-
G Backhouse	-	-	-	-	-	-	-	-
G Jason	437,500	-	-	-	437,500	157,500	157,500	-
R Simons^	420,000	-	-	(420,000)	-	-	-	-
C McGill^	70,000	-	-	(70,000)	-	-	-	-
B Leathers	239,000	-	-	-	239,000	99,000	99,000	-
Total	**2,116,500**	**-**	**-**	**(490,000)**	**1,626,500**	**506,500**	**506,500**	**-**

^ Key management personnel for part of the year of 2013; No longer a KMP.
** Includes forfeitures.

	Balance at beginning of year	Granted as Remuneration	Options Exercised	Net Change Other **	Balance at end of year	Vested Total	Vested Exercisable	Vested Not Exercisable
30 June 2012								
Directors								
M Atkinson	280,000	140,000	-	-	420,000	140,000	140,000	-
A Bellamy	280,000	-	-	-	280,000	-	-	-
Executives								
J Rella*	375,000	140,000	-	(420,000)	95,000	95,000	95,000	-
R Simons	280,000	140,000	-	-	420,000	-	-	-
C McGill*	-	70,000	-	-	70,000	-	-	-
G Jason*	297,500	140,000	-	-	437,500	-	-	-
B Leathers*	169,000	70,000	-	-	239,000	-	-	-
Total	**1,681,500**	**700,000**	**-**	**(420,000)**	**1,961,500**	**235,000**	**235,000**	**-**

* Key management personnel for part of the year of 2012.
** Includes forfeitures.

NOTE 27. KEY MANAGEMENT PERSONNEL COMPENSATION (continued)

(c) Key Management Personnel Shareholdings

	Balance 1 July 2012	Net change other	Balance 30 June 2013
30 June 2013			
Non-Executive Directors			
J Rothwell	32,200,745	-	32,200,745
J Poynton[2,3]	10,000	9,000	19,000
D Amara	50,000	-	50,000
D Singleton[7]	-	28,600	28,600
Executives			
M Atkinson	1,415,737	-	1,415,737
A Bellamy[4,5]	123,369	676,589	799,958
R Simons[6]	-	-	-
C McGill[1]	-	-	-
G Jason	-	-	-
B Leathers	-	-	-
Total	**33,799,851**	**714,189**	**34,514,040**

1 Key management personnel for part of the year of 2013.
2 Mr John Poynton acquired 9,000 shares via a pro-rata offer to shareholders.
3 On the 28th June 2013 Mr John Poynton resigned.
4 Mr Andrew Bellamy acquired 511,033 shares via an accelerated rights issue to shareholders.
5 Mr Andrew Bellamy acquired 165,556 shares in accordance with his employment contract.
6 On the 2nd October 2012 Mr Richard Simons resigned.
7 Mr David Singleton acquired 28,600 shares via an arm's length on-market transaction.

	Balance 1 July 2011	Net change other	Balance 30 June 2012
30 June 2012			
Non-Executive Directors			
J Rothwell	33,974,685	(1,773,940)	32,200,745
C Norman*	26,602,221	-	26,602,221
J Poynton	10,000	-	10,000
D Amara	50,000	-	50,000
D Singleton*	-	-	-
I Campbell	-	-	-
Executives			
M Atkinson	1,415,737	-	1,415,737
A Bellamy	-	123,369	123,369
J Rella*	-	-	-
R Simons	-	-	-
C McGill*	-	-	-
G Jason*	-	-	-
B Leathers*	-	-	-
Total	**62,052,643**	**(1,650,571)**	**60,402,072**

* Key management personnel for part of the year of 2012.

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.

NOTE 27. KEY MANAGEMENT PERSONNEL COMPENSATION (continued)

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

	Balance at beginning of year	Granted as Remuneration	Options Exercised	Net Change Other ***	Balance at end of year	Vested Total	Vested Exercisable	Vested Not Exercisable
30 June 2013								
Directors								
M Atkinson	285,062	-	-	-	285,062	285,062	285,062	-
Total	**285,062**	**-**	**-**	**-**	**285,062**	**285,062**	**285,062**	**-**
30 June 2012								
Directors								
M Atkinson	285,062	-	-	-	285,062	285,062	285,062	-
Total	**285,062**	**-**	**-**	**-**	**285,062**	**285,062**	**285,062**	**-**

*** Includes forfeitures

(e) Other transactions and balances with Key Management Personnel

Other than directors' remuneration and the matters disclosed in note 24 of this report, no related party transactions occurred with the consolidated entity.

NOTE 28. 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:

	2013 $'000	2012 $'000
Expense arising from equity-settled share-based payment transactions	1,263	1,603

The share-based payment plans are described below. In November 2012 the Employee Share Option Plan was replaced by the Long Incentive Plan (LTI Plan). No options were granted in the 2013 period under the employee share option plan, and no performance rights were issued under the LTI Plan.

(b) Types of share-based payment plans

1. Long Term Incentive Plan

The Long Term Incentive Plan (**LTIP**) which replaces Austal's previous executive share option plan aims to reward KMP with the issue of performance rights 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.

The LTIP was developed with the assistance of Mercer, an independent employee share plan consultant. There are separate LTIP for Australian and US executives to take into account relevant US regulations.

Suspension of the LTIP in 2013

In light of the concerns raised by shareholders through the vote at the 2012 AGM regarding the Remuneration Report and remuneration of KMP, the Company elected to suspend the LTIP for 2013, and no performance rights were issued during the year. This was despite the LTIP being approved by shareholders at the AGM.

Given the positive outlook for the Company, the Board expects certain KMP will be eligible for performance rights under the LTIP in the years ahead. However the number of KMP eligible for performance rights under the new LTIP will be significantly lower than those entitled to options under the previous share option plan. Eligibility for performance rights under the LTIP is dependent on the achievement of specific performance hurdles, being Return On Invested Capital (**ROIC) and** Total Shareholder Return (**TSR**). The approach to these performance hurdles is detailed below.

Structure

The performance rights may be granted to KMP and executives in accordance with the LTIP rules and set by the Remuneration Committee.

The terms of each offer to participate in the LTIP may differ depending on the relevant KMP role. Shares issued following the vesting of any performance rights will generally be subject to a restriction on trading for at least 12 months, although the holder will be entitled to any dividends paid during that restricted period.

The Board believes that following the suspension and subsequent re-shaping of the LTIP, including the reduction in the number of KMP entitled to participate, is in the best interests of shareholders. Entitlement to performance rights under the LTIP is based solely on measures which deliver improved results to shareholders, thereby ensuring that the objectives of KMP and shareholders are necessarily aligned.

Performance hurdles

The granting of performance rights is tied exclusively to overall company performance, measured against ROIC and TSR targets set periodically by the Board. The targets will be based on company-wide performance, rather than business unit performance, in order to maximise alignment with shareholder interests – Performance rights will not vest unless these hurdles, are met. Performance hurdles will be measured over a prescribed period determined by the board.

ROIC measure

70% of the performance rights that vest under the LTIP will be tied to the achievement of an average ROIC target over the prescribed period. The ROIC target will be based on company-wide performance, rather than business unit performance, in order to maximise alignment with shareholder interest. Performance rights will vest based on actual ROIC versus target ROIC over the measurement period. The threshold ROIC level will be set by the Board and will normally be at or above current ROIC when rights are issued..

TSR measure

30% of any LTI award will depend on the achievement of TSR levels prescribed by the Board. To be eligible for the full entitlement of performance rights under this aspect of the LTI Plan, TSR must exceed 25% over a prescribed period. The LTI entitlement reduces progressively as TSR figures step down below 25%, such that if TSR over the prescribed period is less than 25% then performance rights based on TSR will not vest. Maintenance of existing TSR performance in itself is not enough to meet the hurdle required for performance rights under this measure. The Board considers this to be consistent with its objective of improving returns to shareholders.

NOTE 28. SHARE BASED PAYMENT PLANS (continued)

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

2. Employee Share Option Plan, 'ESOP'

Objective

The Share Option Plan, replaced by the LTIP, 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; and
- 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 Option Plan aims to reward executives and senior managers with the issue of share options commensurate with their position and responsibilities within the Company and had the same objectives as the LTI Plan discussed above. The grant of options under the ESOP was also based on a relative TSR measure to determine the grant of options.

No options were granted under the ESOP during the year.

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:

	2013		2012	
	No.	WAEP	No.	WAEP
Outstanding at the beginning of the year	**8,273,611**	**2.46**	**6,664,402**	**2.63**
Granted during the year	-	-	3,430,000	2.15
Forfeited during the year	(1,083,125)	2.25	(1,820,791)	2.55
Outstanding at the end of the year	**7,190,486**	**2.49**	**8,273,611**	**2.46**
Exercisable at the end of the year	**2,826,736**		**420,611**	

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 2013 and 30 June 2012:

	Tranche 4	Tranche 5	Tranche 6	Tranche 7	Tranche 8	Tranche 9	Tranche 10
	2009	2010	2010	2010	2011	2012	2012
Grant date	10 Sept 2008	3 Nov 2009	16 Feb 2010	25 Feb 2010	27 Sept 2010	21 Oct 2011	20 Dec 2011
Spot price ($)*	2.35	2.41	2.44	2.43	2.38	2.25	2.24
Option exercise price ($)	2.40	2.95	1.81	2.45	2.34	2.15	2.15
Fair value of option $/option	0.36	0.52	0.69	0.561	0.840	0.667	0.618
Expected volatility (%)	40.0	44.0	44.0	44.0	44.0	43.0	43.0
Annual risk free interest rate (%)	5.54	5.35	5.28	5.37	5.00	4.10	3.20
Dividend yield (%)	5.67	4.5	4.5	4.5	2.0	2.0	2.0
Expected life of option (years)	5.00	5.00	4.00	4.00	4.00	4.00	4.00

* closing share price at valuation date

The Group uses the Monte Carlo model to value the share options. The effects of early exercise have been incorporated into the calculations by using an expected life for the option that is shorter than the contractual life based on certain factors including the period of time between the valuation date and the expiry date, the vesting period, the expected volatility of the underlying shares and the dividend yield. The expected volatility was determined based on the Company's annual historical share

NOTE 28. SHARE BASED PAYMENT PLANS (continued)

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

price volatility over the five year period prior to the valuation dates. The resulting expected volatility therefore reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

Austal Group Management Share Plan

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

(a) The initial 7.700 million shares under the plan were acquired at market value from a former director prior to the listing of the Company on 10 November 1998. An independent valuation was undertaken by Messrs Gorey Sinclair to determine this price.

(b) Austal offers to loan participants up to 100% of the purchase consideration for their shares on a limited recourse basis. However, this amount may be varied at the discretion of the Board.

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

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

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

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

(g) Interest on the loans will be charged at a fixed rate of 6%, or such other rate as determined by the Board.

(h) Upon termination of employment or contract arrangements the shares must be sold and the loan (if any) repaid.

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.

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:

NOTE 28. SHARE BASED PAYMENT PLANS (continued)

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

Austal Group Management Share Plan (continued)

(a) The initial 3 million shares under the plan were acquired at market value on the Australian Stock Exchange on 22 October 2007. These were issued to Mr Robert Browning and forfeited in 2011.

(b) Austal will offer to loan eligible executives up to 100% of the purchase consideration for their shares on a limited recourse basis. However, this amount may be varied at the discretion of the Board.

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

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

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

(f) Dividends on shares held under the Plan are paid to the eligible executive. Eligible executives with an interest in shares under the Plan have full voting rights.

(g) No interest will be charged on the loans.

(h) Upon termination of employment or contract arrangements the shares must be sold and the loan (if any) repaid.

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

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

At balance date the trustee on behalf of the plans holds a total of 1,350,601 shares.

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

	2013	2012
Total shares (in substance options) held by trustee on behalf of plan at balance date (000's)	1,351	1,391
Total shares (in substance options) forfeited during the year (000's)	-	-
Total shares (in substance options) sold during the year (000's)	-	(40)
Total shares (in substance options) granted to employees during the year (000's)	-	-
Total shares (in substance options) exercised during the year (000's)	-	-
Total shares (in substance options) granted to employees at balance date (000's)	-	-
Total shares (in substance options) held by trustee on behalf of plan at balance date (000's)	1,351	1,351
Total fair value of shares (in substance options) exercised during the year ($'000)	-	-
Total number of employees eligible to participate in the plan	10	10

The balance of shares (in substance options) as at 30 June 2013 is represented by:

- 1,350,601 shares (in substance options) under Plan #1 and Plan #2 with a weighted average exercise price of $1.28 each, with no contractual life.

NOTE 29. PARENT ENTITY

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

	2013 $'000	2012 $'000
Current Assets	290,917	208,754
Total Assets	402,971	311,584
Current Liabilities	46,052	42,469
Total Liabilities	73,793	71,587
Equity		
Contributed equity	110,652	31,087
Employee benefit reserve	3,887	2,623
Asset revaluation reserve	14,161	14,161
Cash flow hedge reserve	11,340	-
Retained earnings	189,138	192,126
Total equity	329,178	239,997
Profit/(loss) after tax	840	11,063
Total comprehensive income	840	11,063

For details of guarantees and contingent liabilities relating to Austal Limited refer to note 23.

NOTE 30. BUSINESS COMBINATION

On 4 October 2012, Austal Service Darwin Pty Ltd acquired 100% of the ordinary shares in KM Engineering (NT) Pty Ltd ("KME") and Hydraulink (NT) Pty Ltd ("Hydraulink") and the sellers of KME and Hydraulink obtained a 20% share of Austal Service Darwin Pty Ltd.

KME & Hydraulink are private companies operating in the Northern Territory and provide engineering and hydraulic services to the Royal Australian Navy (RAN) and Australian Customs and Border Protection Service.

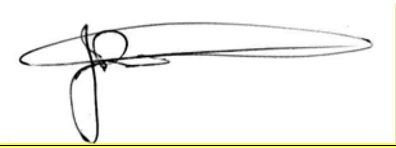
The Group has recognised the fair values of the identifiable assets and liabilities of KME & Hydraulink based on the best information available as of the reporting date. The transaction is not considered material.

DIRECTORS' DECLARATION

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

1. In the opinion of the directors:
   (a) The financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
      (i) Giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
      (ii) Complying with Accounting Standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001.
2. The financial Statements and notes also comply with International Financial Reporting Standards as disclosed in note 2
3. In the opinion of the directors, as at the date of this declaration, there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.
4. This declaration has been made after receiving the declarations required to be made to the directors in accordance with sections 295A of the *Corporations Act 2001* for the financial period ending 30 June 2013.

On behalf of the Board.



J ROTHWELL AO

Chairman

Dated at Henderson this 30th day of August 2013

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 5-12.

The Board of Directors of Austal Limited is responsible for guiding and monitoring of the consolidated entity on behalf of shareholders.

The Austal Limited Corporate Governance Statement is now structured with reference to the Corporate Governance Council's Principles and Recommendations, which are as follows:

Principle 1.	Lay solid foundations for management and oversight
Principle 2.	Structure the board to add value
Principle 3.	Promote ethical and responsible decision making
Principle 4.	Safeguard integrity in financial reporting
Principle 5.	Make timely and balanced disclosure
Principle 6.	Respect the rights of shareholders
Principle 7.	Recognise and manage risk
Principle 8.	Remunerate fairly and responsibly

Management and Oversight

The Board gives direction and exercises judgment in setting the Company's objectives and overseeing their implementation. The responsibility for the operation and administration of the Company is delegated by the Board to the CEO and the executive management team. The Board ensures that this team is appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the CEO and the executive management team.

The Board's functions include:

a. adopting a Strategic Plan for the Company, including general and specific goals and comparing actual results with the Plan, designed to meet stakeholders' needs and manage business risk;

b. appointing, performance assessment and, if necessary, removal of members of the executive management team;

c. adopting clearly defined delegations of authority from the Board to the management;

d. agreeing key performance indicators (both financial and non-financial) with management and monitoring progress against these indicators;

e. taking steps designed to protect the Company's financial position and its ability to meet its debts and other obligations as they fall due;

f. establishing and monitoring policies directed to ensuring that the Company complies with the law and conforms to the highest standards of financial and ethical behaviour;

g. determining that the Company has instituted adequate reporting systems and internal controls (both operational and financial) together with appropriate monitoring of compliance activities;

h. determining that the Company accounts are true and fair and are in conformity with reporting requirements;

i. ensuring that any significant risks that arise are identified, assessed, appropriately managed and monitored; and

j. reporting to shareholders

The performance of key executives is reviewed regularly against both measurable and qualitative indicators. Each year the Nomination and Remuneration Committee conducts a performance assessment for each key executive. The performance criteria against which they are assessed are aligned with the financial and non-financial objectives of Austal Limited. The performance of senior executives was assessed during the year and was in accordance with the above process.

Structure the Board to Add Value

The Board shall comprise of Directors with a range of qualifications, expertise and experience. The selection of the Board members shall always be for the purpose of their ability to add value to the Company.

For the purpose of efficient working, the preferred number of Directors in office at any one time is between 3 and 10.

To ensure that the board is well equipped to discharge its responsibilities it has established guidelines for the nomination and selection of directors and for the operation of the Board. Any proposed new Director is nominated by the Nomination and Remuneration Committee and approved by the Board prior to being appointed. The appointment is until the next General Meeting of shareholders at which time the shareholders are required to approve the appointment.

The Council's Recommendation 2.1 requires a majority of the Board to be independent Directors. In addition, Recommendation 2.2 requires the Chair to be independent.

Since the resignation of Mr John Poynton on 28 June 2013 and retirement of Mr Michael Atkinson on 30 June 2013, the Board consists of a Non-Executive Chair, one Executive Director and two independent Non-Executive Directors.

The Board believes that its main role is to add value for all shareholders and that this is best served by having a balanced Board. The Executive Director and Non-Executive Chairman have expertise in the Company's business. The Non-Executive Directors provide an external perspective to review and challenge the performance of management.

Independent directors therefore make up half the current Board, and given the relatively low number of directors, the Board considers those independent directors have a material impact on Board matters and the Company's direction and are therefore able to ensure that management acts in the best interests of the Company.

The Board will consider appointing another independent deputy Chair to replace Mr Poynton to chair meetings involving any potential conflicts of interest and as an alternate point of contact for shareholders recognising that there might be situations where there might be a conflict of interest.

The performance of the Board is reviewed regularly against both measurable and qualitative indicators. Each year the Nomination and Remuneration Committee conducts a performance assessment for each Board member. The performance criteria against which Directors are assessed are aligned with the financial and non-financial objectives of Austal Limited. Directors whose performance is consistently unsatisfactory may be asked to retire. The performance of the Directors was assessed during the year and was in accordance with the above process.

Independence

Directors of Austal Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgement.

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
D. Amara	Non-Executive Director
D.Singleton	Non-Executive Director

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

Outside Directorships

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

Nomination and Remuneration Committee

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

PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

Ethical Standards and Performance

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

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

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 or the Company Secretary of his/her intentions before proceeding with the transaction; and

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.

Diversity at Austal

The Company recognises that developing a diverse workforce is critical in building its organisational capability and maintaining a high level of performance, and values the distinctive skills, experiences and perspectives each individual brings to the workplace. The Company is committed to ensuring all employees are treated with respect and given equal opportunities for employment and development, and has a diversity policy which can be found on its website. Among other things, the Company's diversity policy:

- articulates how the Company considers diversity within the workforce will make a valuable contribution towards the Company's continuous improvement and the achievement of goals; and
- sets out the Board's commitment to promoting a corporate culture which embraces diversity.

Diversity within the workforce is limited by the manufacturing sector in which the Company operates, and as there is a limited number of women who hold the particular fabrication, welding and production skills required by the bulk of the Company's workforce, the ability to meet targets for gender diversity is necessarily restricted. In accordance with the Company's Code of Conduct, employment and remuneration are based on merit, qualifications, skills and experience so that equally qualified personnel can be confident of their standing in the Company, and value to the Company, regardless of their gender, racial background, age, religious beliefs or other values.

The Board therefore does not set specific targets for diversity requirements, but focuses on improving diversity through workplace practices such as:

- the employment of international workers through 457 visas, and assistance in domiciling those workers in Australia upon visa expiry;
- employment of personnel with particular needs (for example, persons with hearing impairments), both through the Commonwealth Rehabilitation Service and through direct recruitment ;
- offering flexible working hours; and
- employment of part time workers:

The Company emphasises equal opportunity for employment. While there are currently no female Board members, in light of the sector in which the Company operates, women are relatively well represented in other roles. Women currently hold:

- 5% of Senior Management positions;
- 15% of Management positions; and
- 59% of professional roles,

within the Company.

The Board aims to continue to embrace diversity within the Company's workforce as the Company and its activities grow and appropriately skilled candidates are available.

SAFEGUARD INTEGRITY OF FINANCIAL REPORTING

Audit and Risk Management Committee

The Audit and Risk Management Committee must comprise at least two Independent Directors. The Board shall elect the Members and the Chair of the Audit and Risk Management Committee.

The Council's Recommendation 4.2 is that an audit committee consists only of Non-Executive Directors.

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

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

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

The risk management programme addresses risks under the following categories:

- business risks inherent to the shipbuilding industry
- operating risks associated with sales, design and production
- financial risks
- specific vessel risks

The Board oversees an annual assessment of the effectiveness of risk management and internal compliance and control.

The responsibility for undertaking and assessing risk management and internal control effectiveness is delegated to management. Management is required by the Board to assess risk management and associated internal compliance and control procedures and report back on the efficiency and effectiveness of risk management.

REMUNERATE FAIRLY AND RESPONSIBLY

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality Board and executive team by remunerating Directors and key executives fairly and appropriately with reference to relevant employment market conditions. The expected outcomes of the remuneration structure are:

- retention and motivation of key executives
- attraction of quality management to the company

Participation in the LTIP provides an incentive to the Directors and executives which are aligned with increased returns to shareholders.

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

The company's website www.austal.com has a dedicated investor relations section for the purpose of publishing all important company information and relevant announcements made to the market.

Building a better working world

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Independent audit report to members of Austal Limited

Report on the financial report

We have audited the accompanying financial report of Austal Limited, which comprises the consolidated statement of financial position as at 30 June 2013, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 the auditor's 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, the auditor considers 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 complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

RK:DJ:Austal:024

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Opinion

In our opinion:

a. the financial report of Austal Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Report on the remuneration report

We have audited the Remuneration Report included in pages 11 to 18 of the directors' report for the year ended 30 June 2013. 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.

Opinion

In our opinion, the Remuneration Report of Austal Limited for the year ended 30 June 2013, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Robert Kirkby
Partner
Perth
30 August 2013

RK:DJ:Austal:024

SHAREHOLDER INFORMATION

The following information was extracted from the Company's register as at 23 August 2013.

DISTRIBUTION OF SHARES

	Number of Holders	Number of Units	% of Total Issued Capital
1 – 1,000	1,439	727,707	0.21
1,001 – 5,000	2,082	5,817,657	1.68
5,001 – 10,000	805	6,234,028	1.80
10,001 – 100,000	883	24,101,628	6.96
100,001 and over	76	309,292,175	89.35
TOTAL	**5,285**	**346,173,195**	**100.00**

TWENTY LARGEST SHAREHOLDERS

Rank	Shareholder	Total Units	% Issued Capital
1	HSBC Custody Nominees	63,903,464	18.46
2	J P Morgan Nominees Australia Limited	50,322,109	14.54
3	National Nominees Limited	43,992,038	12.71
4	Austro Pty Ltd	32,200,745	9.30
5	Longreach (WA) Pty Ltd	26,595,621	7.68
6	Citicorp Nominees Pty Ltd	24,582,926	7.10
7	Mr Vincent Michael O'Sullivan	12,758,872	3.69
8	Onyx (WA) Pty Ltd	9,817,570	2.84
9	Austal Group Management Share Plan Pty Ltd	4,351,113	1.26
10	RBC Investor Services Australia Nominees Pty Limited	2,874,887	0.83
11	Garry Heys & Dorothy Heys	2,844,670	0.82
12	QIC Limited	2,727,487	0.79
13	Mr William Robert Chambers	2,645,650	0.76
14	Lavinia Shipping Ltd	2,355,000	0.68
15	BNP Paribas Noms Pty Ltd	2,325,415	0.67
16	UBS Nominees Pty Ltd	2,010,088	0.58
17	Mossisberg Pty Ltd	1,883,945	0.54
18	Mirrabooka Investments Limited	1,500,000	0.43
19	Pepperwood Holdings Pty Ltd	1,415,737	0.41
20	Lujeta Pty Ltd	1,295,812	0.37
		292,403,149	**84.46**

SUBSTANTIAL SHAREHOLDERS

Rank	Shareholder	No. of Ordinary Shares
1	HSBC Custody Nominees	63,903,464
2	J P Morgan Nominees Australia Limited	50,322,109
3	National Nominees Limited	43,992,038
4	Austro Pty Ltd (J Rothwell)	32,200,745
5	Longreach (WA) Pty Ltd (C Norman)	26,595,621
6	Citicorp Nominees Pty Ltd	24,582,926

Voting Rights

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

CORPORATE DIRECTORY

DIRECTORS

Executive Directors

Andrew Bellamy

Non-Executive Directors

John Rothwell

Dario Amara

David Singleton

AUDITORS

Ernst & Young

The Ernst & Young Building

11 Mounts Bay Road

Perth 6000

Western Australia

COMPANY SECRETARY

Adrian Strang

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