AUSTAL

LIMITED

Half-Year Report 2011

Contents

Directors' Report

The Board of Directors of Austal Limited submit their report for the half-year ended 31 December 2011.

Directors
The names of the directors in office during the half-year and until the date of this report are:
J Rothwell (Chairman)
M J Atkinson
C J Norman (Retired: 16 December 2011)
J H Poynton
D Amara
I Campbell
A Bellamy
D Singleton (Appointed: 21 December 2011)

Principal Activities
The principal activities of the consolidated entity during the financial half-year are the design, manufacture and support of high speed aluminium ships and systems for the defence, paramilitary and civil markets. These activities are unchanged from the previous year.

Results
The loss of the consolidated entity for the half-year was $2.998 million after income tax.

Review of Operations
The Group operating loss before tax for the first half period was $6.325 million compared with the result for the corresponding prior half period profit of $19.424 million. Revenue increased by $16.268 million over the corresponding prior half year period to $267.431 million.

Revenue in the USA operations grew by 49% compared with the corresponding prior half year period to $228.951 million. The growth is attributable to increased activity in Austal's USA operations, which has three Joint High Speed Vessels (JHSV) and two Littoral Combat Ships (LCS) under construction. This includes USNS "Spearhead" (JHSV 1) which was launched on time in September. As is common with new, complex naval vessel designs, first of class effects adversely impacted productivity resulting in the vessel being substantially budget. With the design now mature and lessons learned from the first vessel being successfully applied, productivity on subsequent hulls has improved by approximately 35%, resulting in substantial cost savings. During the period, Austal USA was awarded two additional JHSV contracts, and now has confirmed orders for seven JHSVs and three LCSs. Contract options for three JHSVs and eight LCSs are still to be exercised.

Revenue in Austal's Australian operations decreased by 67% over the corresponding prior half year period to $30.514 million, reflecting continued softness in the market for large commercial vessels as a result of challenging global economic conditions and the sustained strength of the Australian dollar. During the period the Australian operations delivered two 47 metre catamaran ferries and continued work on two other ferries: a 41 metre catamaran and 35 metre monohull. The Australian operations secured orders for 11 vessels. These included Austal's first vessels for the European offshore wind farm industry, and a $330 million contract for the design, construction and through-life support of eight new Cape Class patrol boats for the Australian Customs and Border Protection Service. The Cape Class project provides construction work through to the second half of 2015, and support work through to at least August 2019. It is a key first step in the repositioning of Austal's Henderson facilities as a defence focused operation.

In November, Austal acquired a shipyard in the Philippines as part of its strategy to regionalise its manufacturing base to regain competitiveness in key commercial vessel markets. Austal undertook enhancements to the shipyard during the period in preparation for beginning operations in the first quarter of 2012.

In the Service sector, Austal continued to provide its support offerings worldwide from Service Centres in Australia; Oman; Spain; Trinidad and Tobago and the United States. During the period, Austal secured a third year option of a Vessel Maintenance and Services Agreement with the Government of the Sultanate of Oman's National Ferries Company (NFC). The Austal supported high speed vessel "WestPac Express" was re-chartered by the United States Navy's Military Sealift Command. The charter will commence in February 2012 as a direct continuation of the ship's current charter and will last up to 24 months. Austal also entered the resources market with a contract to build modular accommodation and amenity units, and continued to pursue other work in the resource and other non-marine based industries.

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

Directors' Report *(continued)*

Auditor's Independence Declaration
We have obtained an independence declaration from our auditors, Ernst & Young which is on page 4 and forms part of the Directors' Report.

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

J ROTHWELL AO
Director – Chairman
Dated at Henderson this 23rd day of February 2012

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Auditor's Independence Declaration to the Directors of Austal Limited

In relation to our review of the financial report of Austal Limited for the half-year ended 31 December 2011, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Gavin Buckingham

G A Buckingham
Partner
Perth
23 February 2012

GB:SS:AUSTAL:102

Consolidated Statement of Comprehensive Income

FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

	Note	CONSOLIDATED 31 December 2011 $'000	31 December 2010 $'000
Continuing operations			
Revenue	3	**267,431**	251,163
Other income	3	**2,807**	4,997
Expenses	3	**(275,313)**	(235,568)
Unrealised gain/(loss) on deferred premium options	3	**1,474**	146
Finance costs	3	**(2,724)**	(1,314)
(Loss)/profit from continuing operations before income tax		**(6,325)**	19,424
Income tax benefit/(expense)	9	**3,327**	(5,339)
(Loss)/profit from continuing operations after income tax		**(2,998)**	14,085
Net (loss)/profit for the period		**(2,998)**	14,085
(Loss)/profit for the period is attributable to:			
Owners of the parent		**(2,998)**	14,085
Other comprehensive income			
Cash flow hedges			
Gain/(loss) taken to equity		**(12,421)**	34,691
Transferred to income statement		**(10,063)**	(20,446)
Foreign currency translation		**297**	(8,108)
Income tax benefit/(expense) on items of other comprehensive income	9	**6,745**	(4,274)
Other comprehensive (expense)/ income for the period, net of tax		**(15,442)**	1,863
TOTAL COMPREHENSIVE (EXPENSE)/INCOME FOR THE PERIOD		**(18,440)**	15,948
Total comprehensive (expense)/income for the period is attributable to:			
Owners of the parent		**(18,440)**	15,948
(Loss)/earnings per share for (loss)/ profit attributable to the ordinary equity holders of the parent:			
- basic (loss)/earnings per share		**(1.63)**	7.68
- diluted (loss)/ earnings per share		**(1.63)**	7.65

Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2011

	Note	CONSOLIDATED As at 31 December 2011 $'000	As at 30 June 2011 $'000
ASSETS			
Current Assets			
Cash and cash equivalents	12	**39,603**	42,265
Restricted cash	12	**72,276**	128,837
Trade and other receivables		**50,868**	21,986
Inventories		**183,348**	177,922
Prepayments		**4,371**	5,792
Derivative financial instruments		**44,435**	37,805
Total Current Assets		**394,901**	414,607
Non-Current Assets			
Cash and cash equivalents	12	**947**	903
Trade and other receivables		**18**	15
Property, plant and equipment	7	**291,185**	208,275
Derivative financial instruments		**15,465**	37,233
Intangible assets		**4,851**	5,063
Deferred tax assets		**-**	8,524
Total Non-Current Assets		**312,466**	260,013
TOTAL ASSETS		**707,367**	674,620
LIABILITIES			
Current Liabilities			
Trade and other payables		**58,024**	52,837
Interest-bearing loans and borrowings	8	**247,836**	8,554
Income tax payable		**9,831**	20,724
Provisions		**22,338**	26,409
Government grants		**2,003**	3,567
Derivative financial instruments		**1,824**	153
Progress payments in advance		**28,542**	2,679
Total Current Liabilities		**370,398**	114,923
Non-Current Liabilities			
Derivative financial instruments		**2,282**	274
Interest-bearing loans and borrowings	8	**18,962**	217,985
Provisions		**1,844**	2,138
Government grants		**50,296**	41,899
Deferred tax liabilities		**17,593**	23,235
Total Non-Current Liabilities		**90,977**	285,531
TOTAL LIABILITIES		**461,375**	400,454
NET ASSETS		**245,992**	274,166
EQUITY			
Contributed equity		**31,418**	31,175
Retained earnings		**208,646**	222,928
Reserves		**5,928**	20,063
TOTAL EQUITY		**245,992**	274,166

Consolidated Statement of Cash Flows

FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

	Note	CONSOLIDATED 31 December 2011 $'000	31 December 2010 $'000
Cash flows from operating activities			
Receipts from customers		**254,339**	298,355
Payments to suppliers and employees		**(267,179)**	(306,613)
Receipt of government grants		**8,906**	3,954
Interest received		**440**	187
Borrowing costs paid		**(2,725)**	(3,286)
GST refunded/(paid)		**1,263**	3,587
Income tax refunded/(paid)		**2,061**	(5,642)
Net cash flows from/(used in) operating activities		**(2,895)**	(9,458)
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**21**	5,336
Purchase of property, plant and equipment		**(78,897)**	(6,333)
Purchase of intangible assets		**(487)**	(341)
Net cash flows from/(used in) investing activities		**(79,363)**	(1,338)
Cash flows from financing activities			
Repayment of loan – in substance options		**(243)**	173
Repayment of borrowings		**(1,802)**	(32,281)
Equity dividends paid		**(11,284)**	(11,284)
Proceeds from borrowings		**31,007**	50,015
Net cash flows from/(used in) financing activities		**17,678**	6,623
Net (decrease) in cash and cash equivalents		**(64,580)**	(4,173)
Net foreign exchange difference		**5,357**	(2,084)
Cash and cash equivalents at beginning of period		**171,102**	29,030
Cash and cash equivalents at end of period	12	**111,879**	22,773

Consolidated Statement of Changes in Equity

FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

CONSOLIDATED	Ordinary shares $'000	Reserved shares * $'000	Retained earnings $'000	Foreign currency translation reserve $'000	Employee equity benefits reserve $'000	Cash flow hedge reserve $'000	Equity reserve $'000	Total equity $'000
As at 1 July 2010	41,075	(10,205)	212,322	(1,685)	3,260	40,523	(15,925)	269,365
Profit for the period	-	-	14,085	-	-	-	-	14,085
Other comprehensive income	-	-	-	(8,108)	-	9,971	-	1,863
Total comprehensive income for the half-year	-	-	14,085	(8,108)	-	9,971	-	15,948
Transactions with owners in their capacity as owners:								
Options exercised	-	173	-	-	-	-	-	173
Share-based payments	-	-	-	-	(893)	-	-	(893)
Dividends	-	-	(11,284)	-	-	-	-	(11,284)
As at 31 December 2010	**41,075**	**(10,032)**	**215,123**	**(9,793)**	**2,367**	**50,494**	**(15,925)**	**273,309**
As at 1 July 2011	41,075	(9,900)	222,928	(8,865)	3,345	41,508	(15,925)	274,166
Loss for the period	-	-	(2,998)	-	-	-	-	(2,998)
Other comprehensive income/(expense)	-	-	-	297	-	(15,739)	-	(15,442)
Total comprehensive income/(expense) for the half-year	-	-	(2,998)	297	-	(15,739)	-	(18,440)
Transactions with owners in their capacity as owners:								
Options exercised	-	243	-	-	-	-	-	243
Share-based payments	-	-	-	-	1,307	-	-	1,307
Dividends	-	-	(11,284)	-	-	-	-	(11,284)
As at 31 December 2011	**41,075**	**(9,657)**	**208,646**	**(8,568)**	**4,652**	**25,769**	**(15,925)**	**245,992**

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

Notes to the Half-Year Financial Statements
FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

1 CORPORATE INFORMATION

The half-year financial report of Austal Limited (the Company) for the period ended 31 December 2011 was authorised for issue in accordance with a resolution of the directors on 23 February 2012.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The half-year financial report should be read in conjunction with the annual Financial Report of Austal Limited as at 30 June 2011.

It is also recommended that the half-year financial report be considered together with any public announcements made by Austal Limited and its controlled entities during the half-year ended 31 December 2011 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001 and Australian Stock Exchange Listing Rules.

(b) Significant accounting policies
The half-year consolidated financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2011.

Since 1 July 2011 the Group has adopted all the Standards and Interpretations mandatory for annual reporting periods beginning on or after 1 July 2011. Adoption of these Standards and Interpretations did not have any effect on the financial position or performance of the Group. The Group has not elected to early adopt any new standards or interpretations that are not mandatorily effective.

Notes to the Half-Year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

	CONSOLIDATED	
	31 December 2011 $'000	31 December 2010 $'000

3. REVENUE AND EXPENSES

Specific Items

Profit before income tax expense includes the following revenues and expenses whose disclosure is relevant in explaining the performance of the entity:

	31 December 2011 $'000	31 December 2010 $'000
(i) Revenue		
Construction contract revenue	**252,481**	236,540
Charter revenue	**4,386**	5,646
Service revenue	**8,741**	7,506
Rental revenue	**358**	153
Sale of scrap	**1,025**	1,128
Finance income	**440**	190
Total revenue	**267,431**	251,163
(ii) Other income		
Net foreign exchange gains	**634**	393
Government grants	**2,073**	3,608
Other income	**100**	996
Total other income	**2,807**	4,997
(iii) Expenses		
Cost of sales – construction contract	**236,377**	201,773
Cost of sales – service	**8,459**	5,945
Chartering expenses	**3,495**	3,969
Marketing expenses	**6,557**	5,538
Administrative expenses	**20,425**	17,274
Net loss on disposal of property, plant and equipment	**-**	1,069
Total expenses (excluding finance costs)	**275,313**	235,568
The above expenses include:		
Depreciation of non-current assets	**5,883**	6,057
Amortisation of intangible assets	**866**	518
(iv) Unrealised gain/(loss) on deferred premium options		
Unrealised gain/(loss) on forward currency options	**1,854**	(2,213)
Foreign exchange (loss)/gain on deferred premium	**(380)**	2,359
	1,474	146
(v) Finance costs		
Interest paid to unrelated parties	**2,724**	1,314

4. DIVIDENDS PAID

	31 December 2011 $'000	31 December 2010 $'000
Equity dividends on ordinary shares:		
Dividends paid during the half-year on ordinary shares:		
Final franked dividend for the year ended 30 June 2011 paid during the half-year ended 31 December 2011: 6 cents (2010: 6 cents)	**11,284**	11,284

Notes to the Half-Year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

5. SEGMENT REPORTING

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

The 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:

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

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

Service
The Service business provides training and on-going support and maintenance for high performance vessels, designs, manufacturers and supports vessel systems and includes the chartering of vessels.

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

Accounting policies and inter-segment transactions
The accounting policies used by the Group in reporting segments internally are the same as those in the prior period.

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

Notes to the Half-Year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

5. SEGMENT REPORTING (continued)

Half Year Ended 31 December 2011	USA	Australia	Service	Other/ Unallocated	Eliminations and Adjustments	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Revenues (including other income)						
External customers	228,951	26,730	13,542	575	-	269,798
Inter-segment	-	3,784	-	2,041	(5,825)	-
Total revenues	**228,951**	**30,514**	**13,542**	**2,616**	**(5,825)**	**269,798**
Segment profit/(Loss) before tax (i)	**4,728**	**(5,702)**	**(288)**	**4,432**	**(7,211)**	**(4,041)**
Half Year Ended 31 December 2010						
Revenues (including other income)						
External customers	154,138	87,379	11,985	2,468	-	255,970
Inter-segment	-	5,652	1,169	1,165	(7,986)	-
Total revenues	**154,138**	**93,031**	**13,154**	**3,633**	**(7,986)**	**255,970**
Segment profit before tax (i)	**14,411**	**6,807**	**1,271**	**(3,066)**	**1**	**19,424**

The following table presents segment assets of the Group's operating segments as at 31 December 2011 and 30 June 2011:

Segment Assets						
31 December 2011	**461,118**	**149,866**	**9,573**	**218,833**	**(132,023)**	**707,367**
30 June 2011	**346,338**	**146,061**	**7,515**	**236,798**	**(62,092)**	**674,620**

i) The profit before tax for each reportable segment does not include finance revenue of $0.440 million (31 December 2010: $0.190 million) and finance costs of $2.724 million (31 December 2010: $1.314 million).

ii) The assets of the USA segment at 31 December 2011 amount to $461.118 million, compared with $346.338 million at 30 June 2011 mainly due to significant capital expenditure during the period.

6. FINANCIAL INSTRUMENTS

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 have a significant effect on the valuation and are directly or indirectly based on market observable data. This classification has not changed from 30 June 2011.

There were no changes in the business or economic circumstances that affect the fair value of the Group financial assets and liabilities.

There were no changes in the classification of financial assets as a result of a change in the purpose or use of those assets.

7. PROPERTY, PLANT AND EQUIPMENT

During the period to 31 December 2011, the Group acquired assets of $78.897 million (2010: $6.333 million). The majority of the additions relate to the Modular Manufacturing Facility (MMF) expansion at the US facility.

8. INTEREST BEARING LOANS AND BORROWINGS

During the period to 31 December 2011, the Group made the following draw downs on its facilities:

- ANZ Banking Group Limited/ HERMES Kreditversicherungs facility $20.465 million; and
- ANZ Banking Group Limited term cash advance asset finance facility $10.543 million.

At 31 December 2011, the Group breached one of the financial ratio covenants in its banking facilities which is an event of default under the facility documentation. The default creates a condition whereby the Group's banks have the discretion to terminate the facilities. The Group's two long term debt facilities, being the Go Zone Bond debt facility and the ANZ term cash advance asset finance facility have, in accordance with Applicable Accounting Standards, been reclassified from non-current liabilities to current liabilities at 31 December 2011.

Subsequent to 31 December 2011, the covenant breach has been waived by the Group's banks and the event of default no longer exists.

9. INCOME TAX

The major components of income tax expense in the interim consolidated income statement are:

	CONSOLIDATED	
	31 December 2011 $'000	31 December 2010 $'000
Statement of comprehensive income		
Current income tax		
Current income tax charge	-	1,510
Adjustments in respect of current income tax of previous years	**(1,865)**	(356)
Deferred income tax		
Relating to origination and reversal of temporary differences	**(1,462)**	4,185
Income tax (benefit)/expense reported in the statement of comprehensive income	**(3,327)**	5,339
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	**(6,745)**	4,274

A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:

Accounting (loss)/profit before income tax	**(6,325)**	19,424
At the Group's statutory income tax rate of 30% (2010: 30%)	**(1,898)**	5,827
Adjustment for Austal USA statutory income tax rate of 36.9% (2010: 36.9%)	**239**	487
Current research and development allowance	**-**	(37)
Share based payments (equity settled)	**164**	(316)
Recognition of Austal USA employment tax credits	**(1,865)**	-
Other	**33**	(622)
Income tax (benefit)/expense reported in the statement of comprehensive income	**(3,327)**	5,339

10. COMMITMENTS AND CONTINGENCIES

There have been no material changes in commitments and contingencies since the last annual reporting date.

11. EVENTS AFTER THE BALANCE SHEET DATE

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

12. CASH AND CASH EQUIVALENTS

For the purposes of the consolidated statement of cash flows, cash and cash equivalents, net of cash held as a guarantee, comprise the following at 31 December:

	CONSOLIDATED	
	31 December 2011 $'000	30 June 2011 $'000
Current		
Cash at bank and in hand	**39,603**	42,265
Restricted cash (i)	**72,276**	128,837
Non Current		
Restricted cash (ii)	**947**	903

Cash at bank earns interest at floating rates 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 31 December:

Cash at bank and in hand	**112,826**	172,005
Less: restricted cash held as a guarantee		
- non-current	**(947)**	(903)
	111,879	171,102

(i) Current restricted cash represents the unspent proceeds of the Go Zone Bonds issuance which occurred in May 2011. The funds may only be spent on those capital works projects that were specifically identified in the documentation issued to investors. It is expected that the restricted cash will be fully utilised in the course of the next year in funding the approved capital works.
The restricted cash is invested in capital protected interest bearing US government securities.

(ii) Non-current restricted cash represents a security deposit held for worker's compensation insurance.

12. CASH AND CASH EQUIVALENTS (CONTINUED)

Reconciliation of net profit after tax to net cash flows from operations

	CONSOLIDATED	
	31 December 2011 $'000	31 December 2010 $'000
Net (Loss)/Profit	**(2,998)**	14,085
Adjustments for:		
Depreciation and impairment	**5,883**	6,057
Amortisation	**866**	518
Net loss on disposal of property, plant and equipment	**5**	3
Share based payment	**1,307**	(893)
Deferred grant income	**(1,949)**	1,137
Changes in assets and liabilities:		
(Decrease)/increase in provisions for:		
Income tax (current and deferred)	**(8,011)**	5,718
Workers compensation insurance	**528**	(616)
Warranty	**(3,961)**	(491)
Employee benefits	**(2,793)**	(1,806)
Other	**1,863**	9,939
(Increase)/decrease in trade and other debtors	**(28,885)**	6,299
(Increase)/decrease in inventories	**(5,426)**	42,816
(Increase)/decrease in prepayments	**1,421**	1,426
(Increase)/decrease in other financial assets	**15,138**	(19,001)
(Decrease)/increase in trade creditors	**(12,258)**	(72,942)
(Decrease)/increase in progress payments in advance	**25,863**	3,336
(Decrease)/increase in government grants	**6,833**	(10,983)
(Decrease)/increase in other financial liabilities	**3,679**	5,940
	(2,895)	(9,458)

Director's Declaration

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

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 financial position as at 31 December 2011 and the performance for the half-year ended on that date of the consolidated entity

  (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*

(b) There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the board

J ROTHWELL AO
Director
23rd February 2012

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Report on the 31 December 2011 Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Austal Limited, which comprises the consolidated statement of financial position as at 31 December 2011, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the group and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the 31 December 2011 Half-Year Financial Report

The directors of the group are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* . As the auditor of Austal Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Ernst & Young

Ernst & Young

Gavin Buckingham

G A Buckingham
Partner
Perth
23 February 2012