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Date of lodgement: 16-Jun-2005

Title: Open Briefing®. Austal Ltd. Chairman on Business Update

Record of interview:

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Austal Limited was selected last year for the design phase of the US Navy's project requiring up to 60 Littoral Combat Ships (LCS) valued at US\$14 billion. Whilst progressing the design phase, you're also pursuing the opportunity to participate in the construction phase in October. How is the ramp-up of your US shipbuilding facilities and staff resources progressing?

Chairman John Rothwell

The Austal board authorised the construction of a new building for Austal USA estimated at US\$20 million. Construction is well advanced and currently about 60 percent complete.

In relation to manpower, we have a vigorous training and recruitment programme in place. We have about 250 people and will need an additional 100. We're confident we'll achieve our targets but staffing continues to remain the most challenging issue for us there.

We expect to commence the construction of the first LCS vessel in November or December this year and our ramp-up will have been completed by then.

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It was previously reported that both the General Dynamics-Austal consortium and Lockheed Martin would be requested to build 1 or 2 vessels each during the first

phase of construction which is called “Flight 0”. What’s the latest information on this?

Chairman John Rothwell

The Assistant Secretary of Navy, Mr. John Young, recently publicly stated that the US Navy’s current plans are to increase the number of vessels required for Flight 0 to between three and five vessels per contractor.

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What strategic plans do you have for Austal USA? Could you clarify what its capex requirements are for this year and the years to come?

Chairman John Rothwell

There are significant opportunities for Austal USA and we will be making a decision in relation to whether to continue to grow our facilities in Mobile, Alabama, or establish ourselves in different parts of the USA.

We have some concerns about the availability of a large workforce in a single location and we will consider other locations in due time. We’ll first seek to maximise the capacity of our facility in Mobile. In relation to the requirement for expansion capital, we’ve so far been able to fund our growth in the US and expect to be able to continue to do so.

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You announced that the recently delivered 127-metre passenger-vehicle trimaran Benchijigua Express to Fred. Olsen S.A. is “significantly related to the current design contract for the LCS.” Could you explain the relevance of this particular design to the LCS project? What implication will this have on your chances of participating in the LCS construction phase?

Chairman John Rothwell

The 127-metre vessel for Fred. Olsen is now proven to be extremely successful. The vessel was recently delivered on a direct route from Fremantle around the Cape of Good Hope, experiencing high seas, and it coped extremely well. Whilst we always had confidence that the design would be successful, this is final proof of the vessel’s capability in operation.

The performance has not gone unnoticed by the US Navy. We’re confident that this will position Austal well for the next construction stage of the LCS programme. The LCS design contract is proceeding well and is on time.

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Another US defence project you’ve expressed interest in is the Theater Support Vessel (TSV) contract, requiring the construction of up to 14 TSVs valued each at \$80-\$100 million. The tender was delayed. Could you provide an update on the status of this tender? When do you expect to submit a bid?

Chairman John Rothwell

It is unknown when the tender is likely to be issued. There is a requirement for TSVs by the US Army. However, the programme still hasn’t been allocated a

budget. The LCS programme is currently being prioritised and there's a possibility that the LCS vessel, or a modification of it, could be used as a basis for the TSVs.

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A news report indicated that you recently attended a US Navy Forum on other future requirements for high speed ships. Could you explain the purpose of this forum and what actions may result from it?

Chairman John Rothwell

The Chief of Naval operations in the US, Admiral Vern Clark, and his colleagues have indicated that the US Navy should operate from floating sea bases located in international waters. This will avoid having to place personnel and equipment on land where they're much more vulnerable. There's also a concern that land-based facilities may not always be available.

The sea basing programme will be developed over the next decade. Due to Austal's experience with high speed vessels, I was the only foreigner in a group of about 60 US military experts in this forum which was designed to discuss the use of high-speed vessels operating to and from sea bases.

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You received a financing commitment by the US Maritime Administration (MARAD) in early 2005 for the contract to build two large ferries for Hawaii Superferry (HSF), subject to the upgrading of port facilities in Hawaii and pending the passing of a bill by the Hawaiian government. What's the status of this contract?

Chairman John Rothwell

MARAD's conditional commitment to finance the vessels had a requirement for an upgrade to the ports in Hawaii to accommodate the vessels. The Senate Appropriations Committee has now approved that expenditure of US\$40 million.

MARAD has indicated that not only do the funds have to be appropriated, but a tender in relation to the upgrading of the port facilities also needs to be issued for the necessary work to be carried out. At this point, we estimate that this may take two or three months and we may see the Hawaii Superferry project come to fruition towards the end of August or in September.

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In the first half of 2005, you announced the signing of a \$35 million contract for two 45-metre commercial ferries for Guadeloupe's L'Express des Iles. What's the status of this contract?

Chairman John Rothwell

The construction of these vessels is well advanced, being undertaken at our Austal Image facility in Henderson, Western Australia. Both will be delivered before the end of the year.

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You recently announced that Austal is the preferred builder for six patrol boats worth about \$11 million for the New South Wales Police. What's the targeted time frame for the construction and delivery of these boats and when will you know the result of this bid?

Chairman John Rothwell

A contract is in the process of being signed and construction is expected to take 10 to 12 months.

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You're contracted to construct twelve 56-metre Armidale Class vessels for the Royal Australian Navy (RAN), with a possibility to supply another two such vessels. Could you confirm whether Austal will supply these additional vessels?

Chairman John Rothwell

We understand that these additional vessels have been budgeted for in the Federal Budget and we've been advised that Defence Materiel Organisation (DMO) is now able to formally process the acquisition of both additional vessels. We expect to see that taking place in the next few months.

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You recently announced the signing of two new conditional contracts for the construction of private and charter vessels valued at \$30 million. Your shipbuilding activities are driven by substantial defence projects, patrol boats and large and mid-sized commercial vessel contracts. What's your strategy in relation to the market for private and charter vessels?

Chairman John Rothwell

The recent conditional sale of both these vessels was a direct result of the success of True North, a vessel we built for a Western Australian tour operator. Whilst the market for these vessels isn't large, it's a product that Austal Image is renowned for. Such contracts are important to us and we expect to see a continued growth in interest for these types of vessel.

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In your Open Briefing on 21 February 2005, you talked about the Federal Government's privatisation of the Australian Submarine Corporation (ASC) being of continued interest to you. Could you provide clarity on the time frame for the ASC privatisation?

Chairman John Rothwell

The Federal Government recently put the potential sale of ASC on hold until clarity on some of the large military shipbuilding contracts was provided. In the past week, ASC has emerged as the preferred bidder for three Air Warfare Destroyers valued at around \$6 billion. The contract will be granted after the contractual negotiations have been completed and it's anticipated that ASC will be offered for sale in the foreseeable future.

The government has recently requested a scoping study to be carried out in relation to the ASC sale. We continue to be interested in acquiring ASC. We'll consider the acquisition if the business model is right.

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In the same Open Briefing, you also indicated that the issuance of the Australian Government's Amphibious Ships tender was postponed until September 2006. What progress have you made on the "request for quotation" for your joint bid with Raytheon Australia to construct these ships, valued at \$1.5 billion to \$2 billion and required for delivery between 2010 and 2014?

Chairman John Rothwell

Austal submitted its quotation on the due date earlier this year. The programme still appears to be sliding out and we understand that a tender may be issued towards the latter part of next year.

There are four bidders for this tender, including one led by Australian Defence Industries, Tenix, ASC and one jointly by Austal and Raytheon.

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To what extent are your resources in Western Australia sufficient to meet the requirements of the growing number of opportunities in Australia and overseas markets? Will it be necessary for you to augment or upgrade your facilities and resources and to what extent would it affect your future capex requirements?

Chairman John Rothwell

If we're successful in winning the Amphibious Ships contract, construction would be undertaken in a government-owned facility in Western Australia, supported with further infrastructure from the Western Australian Government.

The availability of sufficient manpower in Western Australia is of some concern to us. We therefore anticipate sub-contracting work to other States in the event our bid proves successful.

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Thank you John.

To read previous Austal Limited Open Briefings, or to receive future Open Briefings by email, please visit www.corporatefile.com.au.

For more information about Austal Limited, view www.austal.com or call John Rothwell or Michael Sier on (08) 9410 1111.

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