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Austal Limited
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Austal Limited reported on 18 February 2005 \$21.6 million net profit after tax and outside equity interests, compared with \$3.0 million in 1H04. Revenues were up 6.4 percent to \$162.8 million. What drivers contributed to this improvement in your results and is it sustainable?

Chairman John Rothwell

Our revenues were up slightly this first half when compared with the first half last year, but the main factor driving our net profit has been the solid margins achieved on various projects, particularly completed defence projects when compared with the contracts we had in the first half of last year.

In addition, our group operating profit included some favourable items such as a write-back of the provision in the Austal Group Management Share Plan loans of \$1.3 million and a \$4.8 million reduction in our tax liability due to R&D tax allowances.

We still expect sound earnings in the second half, but not at the same level as in the first.

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What is the current delivery position with the commercial trimaran for Fred. Olsen, S.A.?

Chairman John Rothwell

We're aiming to deliver the vessel around the end of March 2005. In the sea trials we conducted, we found the vessel's performance to be particularly good in most conditions; its manoeuvrability was excellent, passenger comfort was high and the contract speed requirement was met. However, we encountered some very rough conditions during the final days of our trials and found that the vessel could be improved by the fitting of an additional rudder. We are now fitting an additional rudder and the vessel should be ready for delivery by the end of March 2005.

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In the first half, you were awarded several mid-sized ferry contracts overseas. What's your strategy for growth in the mid-sized ferry market?

Chairman John Rothwell

We've identified a growing market for vessels in the range of 50 to 70 metres in size. Whilst there has been a slowdown in the market for large vehicle ferries, we've received a growing number of inquiries from the market for mid-sized ferries. One of our key strengths is our extensive design experience and our ability to rapidly produce customised designs that suit the particular requirements of our customers. We're well-positioned to cater to this particular market, given our flexibility in construction and diversity in the total shipbuilding market.

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Your contract to construct two vehicle-passenger ferries for Hawaii Superferry valued at over US\$70 million each was subject to finance targeted for completion by the 2004 calendar year end. What's the status of the financing arrangement?

Chairman John Rothwell

Although there was an unfortunate delay, a financing commitment was eventually secured from the US Maritime Administrations (MARAD) early in the New Year.

Certain conditions remain attached, however, the main one being an upgrading of the shore facilities in Hawaii. What that condition specifically entails is the passing of an appropriate bill confirming that the Hawaiian Government will upgrade the port facilities to adequately accommodate these vessels.

The Hawaiian Government has given a verbal confirmation and the Governor herself has declared her full support. Nevertheless, a confirmation by the Appropriations Committee in relation to that bill is required.

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What is the status of the contract relating to the two additional Armidale Class patrol boats for the Royal Australian Navy (RAN), which was announced by Prime Minister John Howard last September?

Chairman John Rothwell

We've submitted a formal proposal to the Commonwealth and are awaiting their response. The vessels won't be in service until late 2007. We have no doubt that the intention is to proceed with the contract relating to these additional vessels and that it's only a matter of completing the due process.

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On 30 August 2004, Austal announced its intention to jointly bid with Raytheon Australia for the Australian government's Amphibious Ships valued at \$1.5 to \$2 billion for delivery between 2010 and 2014. In an Open Briefing on 8 September 2004, Austal mentioned how it plans to bid for this tender. What's the status of the tender and when will it be issued?

Chairman John Rothwell

The issuance of the Amphibious Ships tender has been delayed and is scheduled for September 2006, well over 12 months away. We're now in the process of completing a "request for quotation" required by the Commonwealth. We have partnered with Raytheon Australia to jointly bid for the project and it's not inconceivable that we might add another party to our team.

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As part of the US Department of Defence's requirement of 57 Littoral Combat Ships (LCS) over 15 years, it recently awarded the construction of the first LCS vessel to Lockheed. The final design contracts, awarded to the Austal-General Dynamics team and the Lockheed Martin team, include options to construct two prototype vessels. When is the award for the construction of the remaining LCS vessels likely to be given?

Chairman John Rothwell

The US Navy have always said that a contract for a prototype LCS vessel would be issued to the Austal-General Dynamics in October 2005, and we're still of the opinion that the timeframe will be met, in light of the fact that they've met every other scheduled date so far.

The Lockheed Martin team are competing on the basis of a much smaller design contract requiring less design work and was therefore awarded its build contract first. The award of the contract to Lockheed Martin was granted within the timeframe previously indicated by the US Navy, and we anticipate ours to be awarded on time also.

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Is the Austal-General Dynamics team on track to complete the LCS design phase by October 2005?

Chairman John Rothwell

Yes, most definitely.

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How do you intend to manage the execution of new contracts as you ramp up your resources for the LCS construction phase in October 2005?

Chairman John Rothwell

The timing of the Hawaii Superferry contract enables us to expand the US workforce at an optimal rate and on time for the expected commencement of the construction of the first LCS vessel towards the end of this year.

The expansion of our US facilities for the LCS construction phase has now commenced and since our last Open Briefing on 8 September 2004, we have committed to larger facilities, which has consequently resulted in an increase in the capex requirement by about \$2 million. The bulk of the expansion will be funded by grants from the State of Alabama and the City of Mobile and through the financial support of General Dynamics. We will also be contributing some funds ourselves.

A number of our Australian employees have already transferred to the US and more will follow.

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With increased activity in the defence market and continued orders from your commercial market, what is the current commercial-defence breakdown of work on hand and how do you see that evolving?

Chairman John Rothwell

Defence contracts make up approximately 40 percent of our total order book, but our mix remains a moving target. An obvious benefit provided by defence projects is that they're generally longer term, involving multiple orders, as distinct from the one-year horizon of commercial vessels.

On the whole, we have a relatively long-term order book with work on both commercial and defence contracts taking us through to 2007. We've traditionally been an Australian commercial shipbuilding business generating around \$300 million in revenue, with margins of between 8 percent and 10 percent before tax. But as Austal USA continues to evolve with the execution of the Hawaiian Superferry contract and the LCS project over the next few years, we expect to generate another \$250 million a year in revenue with minimal additional capital required.

We're also seeing opportunities in the naval shipbuilding sector in Australia, and the Federal Government's privatisation of the Australian Submarine Corporation (ASC) will continue to be of interest to us.

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You announced on 6 December 2004 the resignation of MD Bob McKinnon effective 30 June 2005. Could you clarify your role going forward and what impact Bob's resignation will have on the management structure?

Chairman John Rothwell

Bob's resignation was an amicable arrangement and was as a result of both Bob and I recognising that the company would need a more youthful successor to lead Austal through the next decade. I will continue in my role as Executive Chairman. We aim to appoint a successor for myself within five years.

We are considering a number of potential successors from within. Nevertheless, we're not ruling out recruits who can be developed for future succession at Austal in the coming years.

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What guidance can you provide with respect to earnings and dividends for the full year 2005?

Chairman John Rothwell

We've had a good first half year and we expect a full year result to be well-received by our shareholders. Our policy has been to pay dividends subject to profits, and while we've traditionally not paid interim dividends, our board will look favourably towards paying a final dividend when it announces our full year result.

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In your opinion, what's the outlook for Austal going forward?

Chairman John Rothwell

I think the company is now better positioned than it has ever been.

Our order book is well placed out to 2007. The commercial market remains sound and we're seeing a growing number of opportunities in the defence market. We have a strong potential to undertake the LCS construction phase, and the Hawaiian Superferry project is progressing well.

We've got great diversity in our total market range. The lumpiness in revenues that we've experienced in the past due to limitations in the diversity of our product range has now largely disappeared.

We anticipate substantial growth over the next five to ten years. I do believe that in a decade from now, Austal will be a very different company from what it is today and I'm confident about our bright future.

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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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