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Austal Limited
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Austal Limited reported today \$35.5 million net profit after tax and outside equity interests for the year ended 30 June 2005, up 76 percent from \$20.1 million last year. Revenue in FY05 amounted to \$321.3 million compared with \$310.1 million last year. What were the key drivers behind this result?

Chairman John Rothwell

We have remained focused on commercial and military vessels and all our contracts performed satisfactorily.

The main improvement was in our Australian business which focused on the production of commercial vessels and patrol boats. Our US operation continued to operate at a loss of \$1.4 million as it focused on expanding its capacity to undertake defence contracts for the US Navy. The main increase in our capital expenditure was a result of the construction of our new production facilities in the US, which was partially funded by a grant from the State of Alabama and a loan from General Dynamics, our partner in the US Navy's Littoral Combat Ships (LCS) project.

During the year, we made several significant deliveries of both commercial and defence vessels. We delivered the 127-metre trimaran ferry "Benchijigua Express" to Fred. Olsen, S.A. for operation in the Canary Islands. We also completed the construction of a 50-metre luxury tourism vessel "True North" and a 38-metre

research vessel. At year end, we had neared completion of an 85-metre vehicle-passenger catamaran for Hellenic Seaways of Greece. In addition, we received new orders during the year for a 67-metre vehicle-passenger ferry for Virtu Ferries of Malta, two 45-metre catamarans for L'Express des Iles for operation in Guadeloupe and two orders for a 37-metre and a 58-metre cruise vessel for private and charter use.

In terms of defence vessels, we delivered the first of 12 Armidale Class Patrol Boats to the Royal Australian Navy and ten 37.5-metre patrol boats to the Republic of Yemen. We also became the selected builder for six patrol boats for the New South Wales Water Police.

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EBIT increased to \$41.3 million from \$24.4 million. EBIT margin rose to 13 percent from 8 percent. Is there scope for further improvement?

Chairman John Rothwell

We are pleased with our EBIT margin improvement. We believe that an EBIT margin ranging between 8 percent and 13 percent is sustainable in the long term.

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In your Chairman's Report on the FY05 results, you flagged that there are tenders in progress for some large commercial ferries. Can you comment on these?

Chairman John Rothwell

At present, we have a tender in progress for large vehicle-passenger ferries for which we are well positioned. Given the current enquiry rate for our vessels, we expect to operate our Australian and US businesses at full or near full capacity this financial year.

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Following the absence of a dividend last year, you declared a fully franked dividend of 9 cents per share in FY05. What level of dividends do you regard as sustainable?

Chairman John Rothwell

The Board in principle prefers to return 40 percent to 50 percent of our earnings to our shareholders. We confirmed that would be the case for this year and we expect the same approach in the future - but always subject to our capital needs.

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In your last Open Briefing in June, you indicated the US Navy plans to increase the number of vessels required for the first phase of construction (Flight 0) of the LCS programme to between three and five vessels per contractor. When do you expect this plan to be finalised and to receive such contracts?

Chairman John Rothwell

It is not yet a firm plan, although Assistant Secretary to the US Navy John Young has indicated that an increase in the number of Flight 0 vessels from between one and two per contractor to between three and five per contractor is likely.

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What progress have you made in hiring your targeted number of employees required for the LCS project by December 2005?

Chairman John Rothwell

Our target is a total of 350 production employees by December 2005. We've increased our production workforce to around 300 people so far and we are confident that we can achieve this target.

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Your contract to construct two large ferries for Hawaii Superferry was conditional on finance and subject to the passing of a Hawaiian government bill and the upgrading of port facilities. What's the status of this project and what are the outstanding requirements?

Chairman John Rothwell

In our Open Briefing in June, I indicated that the Hawaii Superferry project would be coming to fruition in August or September 2005, when finance becomes unconditional. September remains likely on the basis of the information we now have.

Hawaii Superferry is preparing a request to the US Maritime Administration (MARAD) to change the engine supplier following advise from M.A.N. that it was unable to meet the required delivery date.

In addition, while Hawaii Superferry was successful in defeating an environmental challenge at the state level, the matter has now moved into the federal level. Nonetheless, Hawaii Superferry does not anticipate this will delay the closing of the project which is expected to take place in September.

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The Australian Submarine Corporation (ASC) recently became the preferred shipbuilder to supply the Royal Australian Navy three new Air Warfare Destroyers. When will ASC's privatisation process begin and can you comment on your plans to bid for it?

Chairman John Rothwell

The Federal Government has signalled its intention to privatise ASC. However, there is no confirmed timeline at this point in time. We are considering various options in relation to potential partners and equity arrangements and we remain interested in participating in an ownership structure should the opportunity arise.

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What's the status of the acquisition of two more vessels for the Royal Australian Navy in addition to the 12 vessels you're already contracted to supply them?

Chairman John Rothwell

We've now lodged an offer to the Commonwealth for the two additional vessels and hope that the contract will be confirmed by the end of this calendar year.

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How are you addressing the skills shortage and how is it impacting your ability to meet orders?

Chairman John Rothwell

We are acting on a number of different fronts and there is no singular solution. We are introducing new shipbuilding methods that reduce time wastage, increase automation and de-skill certain aspects of the work. We are recruiting from overseas and we are likely to sub-contract some additional work. Whilst meeting delivery dates on vessels will remain challenging and we have experienced slight over-runs, it is not affecting us seriously.

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You recently appointed a new Chief Operating Officer, Stephen Murdoch. What does he bring to the company and what are his responsibilities?

Chairman John Rothwell

Steve Murdoch has spent many years managing mining projects and also has excellent manufacturing experience with a particular focus on HR and productivity issues.

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What are the longer term plans for Austal? What are your priorities for FY06 and what guidance can you provide?

Chairman John Rothwell

The longer term vision for Austal is to continue to diversify into the high technology shipbuilding area and broaden our product base, with the aim of reducing the variability of our earnings.

Our plans for the year are to confirm more commercial and defence orders for which we are well placed, build on our workforce and continue to improve our productivity. Shipbuilding is not a hugely capital intensive industry and we therefore anticipate being able to achieve growth without the need for substantial additional capital.

We will continue to develop our management team so we can move the business forward over the longer term and position the company to participate in the wider Australian naval shipbuilding sector.

We have a good potential order book in Australia. There are also a number of opportunities in the US which we will further develop. The LCS project has been on the horizon for some time. We are confident that an initial construction contract will come to fruition in the current half of this financial year. Recent statements made by the US Navy indicate that the project is moving forward and getting larger.

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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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