



**COMPANY ANNOUNCEMENT
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US DEFENSE BUDGET PLANS

Austal Limited advises that the United States Secretary of Defense, Leon E. Panetta, has announced proposed changes to future years' defense spending. This proposal stems from the new US defense Strategic Guidance released earlier this year.

Commenting on the announcements Austal's Chief Executive Officer Andrew Bellamy said it was important to look beyond the top level numbers.

"Although total US defense spending will fall substantially this is primarily as a result of reduced war-related requirements," he said. "The base budget, which includes procurement, will in fact rise from FY2013 to FY2017 at a rate roughly matching, or slightly exceeding, inflation.

"While a number of US defense programs have been cancelled, this is not the case for naval shipbuilding where continued investment is planned. This includes Austal's current Independence-variant Littoral Combat Ship (LCS) and Joint High Speed Vessel (JHSV) Programs."

Austal presently has confirmed contracts for three LCSs and seven JHSVs, with orders for a further two ships in each class anticipated by the end of March 2012, under the FY12 National Defense Authorization Act, which was signed at the end of last year. Those acquisitions are unaffected by the proposed changes.

The plans do, however, involve slowing the pace of new ship acquisition during the Future Years Defense Program (FYDP). The FYDP covers US fiscal years 2013 to 2017 and includes acquisitions for which the procurement process is yet to begin.

Under the proposal announced by Secretary Panetta, the Navy will acquire two fewer LCS, which Austal expects will comprise one Independence-variant and one Freedom-variant, and eight fewer JHSVs during the FYDP.

"Although details have not been released, we anticipate that those changes stem from postponements to planned LCS and JHSV program extensions that have not yet been awarded," Mr Bellamy said. "Based on that assessment we expect that the eight LCS and three JHSV options that exist under our current awards will be exercised in due course with additional ships to be acquired beyond fiscal 2017."

In fact the Navy has reconfirmed its commitment to having a fleet of 55 LCSs, and Secretary Panetta stated that "The Navy is protecting our highest-priority and most flexible ships, such as the Arleigh Burke destroyers and the littoral combat ships" when discussing the proposed changes.

Mr Bellamy said the Navy's commitment to the LCS Program was also evidenced by the Department of Defense budgeting to forward station Littoral Combat Ships in Singapore.

"That is part of a strategic rebalancing of the US military's force structure and investments toward the Asia-Pacific region, which also places a renewed emphasis on naval forces," he said.

"Together with our existing operations in the region, that in itself creates new opportunities for us particularly for providing in-service support to LCSs and other ships."

Austal notes that all plans announced by Secretary Panetta remain subject to Congressional and Presidential changes and approval as part of the normal US Government Budget process for each of the five fiscal years covered by the FYDP.

Austal anticipates that further details clarifying the FYDP plans will be released along with the formal Budget request due in February.

END

About Austal

Austal is a global defence prime contractor. The Company designs, constructs and maintains revolutionary platforms such as the Littoral Combat Ship (LCS) and the Joint High Speed Vessel (JHSV) for the United States Navy, as well as an extensive range of patrol and auxiliary vessels for defence forces and government agencies globally. Austal also designs, installs, integrates and maintains sophisticated communications, radar and command and control systems.

Austal benefits from its position as a world leader in the design, construction and support of customised, high performance aluminium vessels for the commercial high speed ferry market, an achievement gained over a period of nearly 25 years.

Austal's primary facilities comprise a combined defence and commercial shipyard in Henderson, Western Australia; a dedicated defence shipyard in Mobile, Alabama; and a dedicated commercial shipyard in Balamban, Philippines. The Company also provides vessel support services from its facilities in Australia, the United States, Asia, Europe, the Caribbean, and the Middle East.

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