Austal Capital Raising Presentation

22 November 2012

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Executive summary

- Austal is undertaking a 9 for 10 equity offering to raise up to approximately A$86mm at A$0.50 per share
  - Conducted via an accelerated pro-rata non-renounceable entitlement offer ("Entitlement Offer")
  - Institutional component fully underwritten, representing proceeds to Austal of approximately A$61mm[1]
- Net proceeds from the Entitlement Offer will be used to reduce indebtedness and strengthen Austal's balance sheet. Assuming minimum proceeds raised of A$61 million:
  - Pro forma Net Debt / FY13 EBITDA reduced to 1.9x as at September 2012[2]
  - Pro forma Gearing reduced to 26.7% as at September 2012[3]
- Concurrently, Austal has also received credit approved commitments from its lenders for new 3 year debt facilities, which, together with the Entitlement Offer, will provide significantly improved financial flexibility
- Austal's strong outlook is backed by a record contracted order book of A$2.3bn[4], securing revenues through to 2016
- Significant operational improvements being achieved with FY13 EBITDA and NPAT guidance in the range of between A$65-71mm[5] and A$23-26mm[5], respectively[6]
  - Represents growth of 91.8% and 121.9% over the pcp (at mid-point of guidance range)
- A group of shareholders comprising Directors and associates representing 37.6% of Austal's shareholder register have stated they will not be subscribing for their entitlement – these shareholders have stated that they are fully supportive of the capital raising and remain committed to being long-term Austal shareholders

[1] The Joint Lead Managers may also elect to underwrite some or all of the retail component by giving notice to Austal prior to the Retail Entitlement Offer opening

[2] Based on net proceeds from the underwritten capital raise of A$61mm, less related fees and expenses of A$3.4mm. Includes A$35mm in excess Go-Zone Bond (GZB) proceeds which are proposed to be cancelled as part of this refinancing. FY13 EBITDA represents mid-point of guidance range and includes one-off pre-tax gain on sale of excess land of A$4.8mm. Assuming fully subscribed capital raise of up to A$86mm, less related fees and expenses of A$4.0mm, pro forma Net Debt / FY13 EBITDA of 1.6x as at September 2012

[3] Net Debt / (Net Debt + Book Equity). Based on net proceeds from the underwritten capital raise of A$61mm, less related fees and expenses of A$3.4mm. Includes A$35mm in excess Go-Zone Bond (GZB) proceeds which are proposed to be cancelled as part of this refinancing

[4] Order book as at September 2012

[5] EBITDA includes one-off pre-tax gain on sale of excess land of A$4.8mm; NPAT includes one-off post-tax gain on sale of excess land of A$3.4mm

[6] Austal's FY13 guidance is not a forecast and there can be no assurance that Austal will achieve the results indicated. The guidance is based on a number of assumptions, including: contracted revenues, projected costs, the timing and quantum of revenues, foreign exchange rates and the realisation of stock vessels and is subject to a number of risks, including those described under "Risk Factors". Investors are cautioned not to place undue reliance on the guidance

Details of the Entitlement Offer

Entitlement Offer structure and size	▶ 9 for 10 accelerated pro-rata non-renounceable entitlement offer to eligible shareholders to raise up to approximately A$86mm — Institutional component fully underwritten, representing proceeds to Austal of approximately A$61mm ▶ Approximately 171.6mm new Austal ordinary shares ("New Shares") to be issued ▶ The Entitlement Offer is non-renounceable: shareholders will not receive any proceeds from the sale of entitlements not taken up
Offer price	▶ A$0.50 per New Share — 35.4% discount to TERP[1] of A$0.77 — 51.0% discount to Austal's closing price on 15 November 2012
Institutional Entitlement Offer	▶ Fully underwritten, expected to raise approximately A$61mm ▶ Institutional entitlements not taken up by institutional shareholders and entitlements of ineligible institutional shareholders will be placed into the institutional shortfall book-build ▶ Entitlements not taken up by Directors and major shareholders representing 37.6% of Austal's issued capital will also participate in the institutional shortfall book-build
Retail Entitlement Offer	▶ Retail Entitlement Offer opens 30 November 2012 and closes 17 December 2012 ▶ Expected to raise approximately A$25mm ▶ The Retail Entitlement Offer will include a top up facility under which eligible retail shareholders who take up their full entitlement will be invited to apply for additional New Shares in the event of a shortfall from the retail component
Use of proceeds	▶ Reduce net indebtedness and strengthen Austal's balance sheet, with net proceeds of the Entitlement Offer to be applied as follows: — A$23mm reduction in working capital facilities — Up to A$59mm collateral support for Go-Zone Bonds letters of credit
Ranking	▶ New Shares issued under the Entitlement Offer will rank equally in all respects with existing ordinary shares ▶ The Retail Entitlement Offer is open to eligible existing Austal shareholders with a registered address in Australia or New Zealand on the register as at 7:00pm (Sydney time) on the Record Date of 27 November 2012

[1]The Theoretical Ex-rights Price ("TERP") is the theoretical price at which Austal shares should trade after the ex-date for the Entitlement Offer. TERP is calculated by reference to Austal's closing price on 15 November 2012 of A$1.02, being the last trading day prior to the announcement of the Entitlement Offer. TERP is a theoretical calculation only and the actual price at which Austal shares trade immediately following the ex-date for the Entitlement Offer will depend on many factors and may not be equal to TERP

Indicative offer timetable

Indicative offer timetable

EVENT	DATE
Announcement of Entitlement Offer	Thursday, 22 November 2012
Institutional Entitlement Offer opens	Thursday, 22 November 2012
Institutional Entitlement Offer and Institutional Shortfall Bookbuild closes (Australia, NZ & Asia)	5.00pm Thursday, 22 November 2012
Institutional Entitlement Offer and Institutional Shortfall Bookbuild closes (other eligible jurisdictions)	7.00am Friday, 23 November 2012
Shares recommence trading on ASX on ex-entitlement basis	Friday, 23 November 2012
Record date for Entitlement Offer eligibility (7.00pm Sydney time)	Tuesday, 27 November 2012
Retail Entitlement Offer opens	Friday, 30 November 2012
Retail Offer Booklet despatched to Eligible Retail Shareholders	Friday, 30 November 2012
Settlement of Institutional Offer	Tuesday, 4 December 2012
Allotment and normal trading of New Shares issued under the Institutional Entitlement Offer	Wednesday, 5 December 2012
Retail Entitlement Offer closes (5.00pm Sydney time)	Monday, 17 December 2012
Settlement of Retail Entitlement Offer	Thursday, 27 December 2012
Allotment of New Shares issued under the Retail Entitlement Offer	Friday, 28 December 2012
Trading of New Shares issued under Retail Entitlement Offer (10:00am Sydney time)	Monday, 31 December 2012

All dates are indicative and subject to change. Austal and the Joint Lead Managers reserve the right to withdraw or vary the timetable without notice

Key investment highlights

1 Global market leader	▶ 25 year track record, with approximately 220 vessels delivered globally ▶ Technology leadership, with strong IP portfolio – unique integrated in-house design, engineering and build capability ▶ Worldwide network of strategically located shipyards and service facilities supported by approximately 3,900 employees
2 Diversified global customer base	▶ Leadership in design, construction and support of high performance aluminium vessels for the commercial market – including trimaran, catamaran and monohull ships ▶ Global defence prime contractor, with substantial capability and track record in recent years as one of the fastest growing contractors in the defence industry
3 Record order book	▶ Current record order book of A$2.3bn[1] – across defence and commercial markets – with strong counterparties, including U.S. Navy — Provides four years of revenue visibility ▶ Further ships worth in excess of US$2.2bn[1] expected to be contracted under existing Austal awards[2]
4 Growth opportunity in service	▶ Established and growing service offering in place, supported through Austal's global facility network ▶ Through life support opportunity in defence for contracted ship build programs is a substantial long-term growth opportunity – would add attractive annuity style recurring income stream with limited capital investment required ▶ Uniquely positioned to benefit from the U.S. Navy's forward deployment strategy
5 Substantial earnings growth in FY13	▶ FY13 EBITDA and NPAT guidance in the range of between A$65-71mm[3] and A$23-26mm[3],respectively[4], represents year-on-year growth of 91.8% and 121.9% respectively (at mid-point of guidance range) ▶ Underpinned by contracted order book, profitability improvement initiatives across the business and the benefits of the recently established Philippines Shipyard Operations
6 Experienced and capable management team	▶ Significant commercial and shipbuilding experience ▶ Continue to add strong capability – e.g. new Chairman of Austal USA ▶ Strong internal development programs, robust succession planning and focus on program delivery

[1] Order book as at September 2012
[2] Contracting of vessels awarded is not guaranteed and is subject to a number of risks, including those described under "Risk Factors"
[3] EBITDA includes one-off pre-tax gain on sale of excess land of A$4.8mm; NPAT includes one-off post-tax gain on sale of excess land of A$3.4mm
[4] Austal's FY13 guidance is not a forecast and there can be no assurance that Austal will achieve the results indicated. The guidance is based on a number of assumptions, including: contracted revenues, projected costs, the timing and quantum of revenues, foreign exchange rates and the realisation of stock vessels and is subject to a number of risks, including those described under "Risk Factors". Investors are cautioned not to place undue reliance on the guidance

A global leader in aluminium shipbuilding

- Established: 1988
- Listed on the ASX : 1998 (ASX: ASB)
- Headquartered: Henderson, WA

Ships

- 25 year history; approximately 220 ships successfully delivered
- Unique, integrated design, engineering and build capability
- Expertise across defence and commercial
- Network of 3 world class shipbuilding facilities
- c.A$2.2bn[1] contracted order book, providing four year revenue visibility
- Current programs include:
  - Joint High Speed Vessel ("JHSV") program – US Government: 10 ship award; 9 contracted
  - Littoral Combat Ship ("LCS") program – US Government: 10 ship award; 4 contracted (plus a further two ships with partner General Dynamics)
  - Cape Class Patrol Boat program – Australian Customs: 8 ships

Systems

- Specialised capability in integration, maintenance and command and control systems
- Supports defence and commercial markets
- Key capabilities include:
  - Advanced system integration
  - System support and maintenance
  - Proprietary command and control technology

Support

- Network of 10 regional centres globally
- Tailored service offering to match customer requirements
- Key capabilities include:
  - Vessel and fleet maintenance
  - Refit and repair
  - Ship management
  - Training
  - Consultancy
- Supporting both defence and commercial customers

[1] Order book as at September 2012

World class network of shipyards and support facilities

Balamban, Philippines
- Established: 2011
- Employees: ~225
- Primary market: Commercial
- Capital invested: c.A$20mm
- Contracted order book: c.A$50mm[1]
- Key customer: Export markets

Mobile, Alabama, USA
- Established: 1999
- Employees: ~3,200
- Primary market: Defence
- Capital invested: c.A$400mm
- Contracted order book: c.A$2.0bn[1]
- Key customer: U.S. Government

Perth, Australia
- Established: 1988
- Employees: ~450
- Primary market: Defence
- Capital invested: c.A$80mm
- Contracted order book: c.A$250mm[1]
- Key customer: Australian Government

★ Global head-quarter ● Shipyards ● Service centres ● Offices

Strategically located footprint provides access to key customers and flexible production costs – total invested capital in shipbuilding infrastructure of c.A$500mm

[1] Order book as at September 2012

Prime contractor on two key U.S. naval programs...

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Joint High Speed Vessel ("JHSV")

- Date awarded: November 2008
- Number of vessels contracted to date: 9 (out of initial 10 vessel award)
- Delivery schedule – under award: Through to 2017
- First ship expected to be delivered in November 2012

Littoral Combat Ship ("LCS")

- Date awarded: December 2010
- Number of vessels contracted to date: 2 by partner General Dynamics (1 delivered and 1 in production) and 4 by Austal (out of a subsequent 10 vessel award to Austal)
- Next two contracts under existing award expected 1Q2013[2]
- Contracted delivery schedule: Through to 2017

Outlook

- U.S. Budget Control Act (2011) not expected to affect Austal's current U.S. contracted work of c.A$2.0bn[1] and therefore pressure on U.S. defence budget is not expected to affect near term outlook
- Both JHSV and LCS programs essential for littoral (inshore) missions
  - U.S. Navy committed to maintain c.300 naval fleet
  - JHSV and LCS support this objective
- U.S. Navy has reaffirmed commitment to LCS program – LCS fleet size estimated at 50-60 vessels
  - "At the geo-strategic level, it's all about the littorals"
    - *General James F. Amos, Commandant of the Marine Corps, April 2012*
- Strategic pivot to Asia in U.S. defence strategy is also supportive of Austal's ship programs
- U.S. Navy continuing to develop through life support strategy for JHSV and LCS
- Austal believes it is well placed to secure significant roles in servicing both the JHSV and LCS programs

Further contract awards for the JHSV and LCS programs, together with long-term through life support, represent significant potential growth opportunities for Austal

[1] Order book as at September 2012
[2] Contracting of vessels awarded is not guaranteed and is subject to a number of risks, including those described under "Risk Factors"

...with significant upside and export potential

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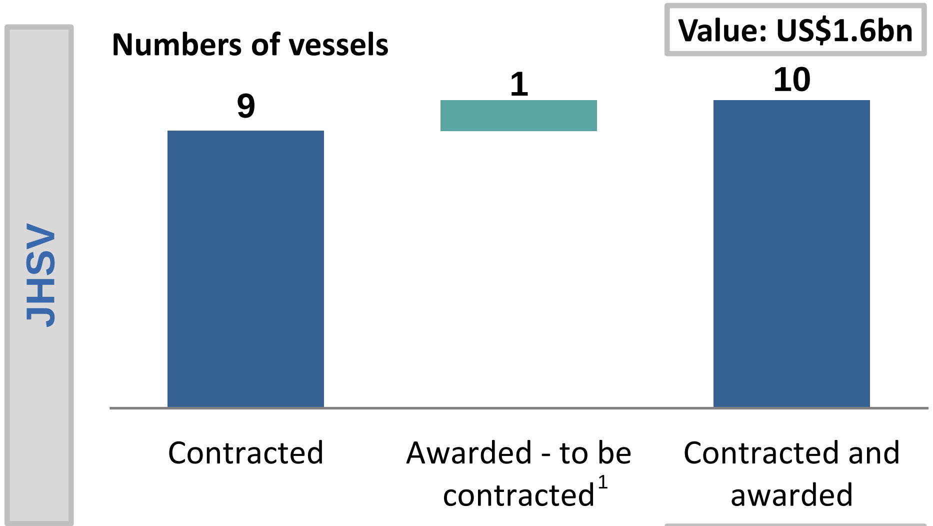
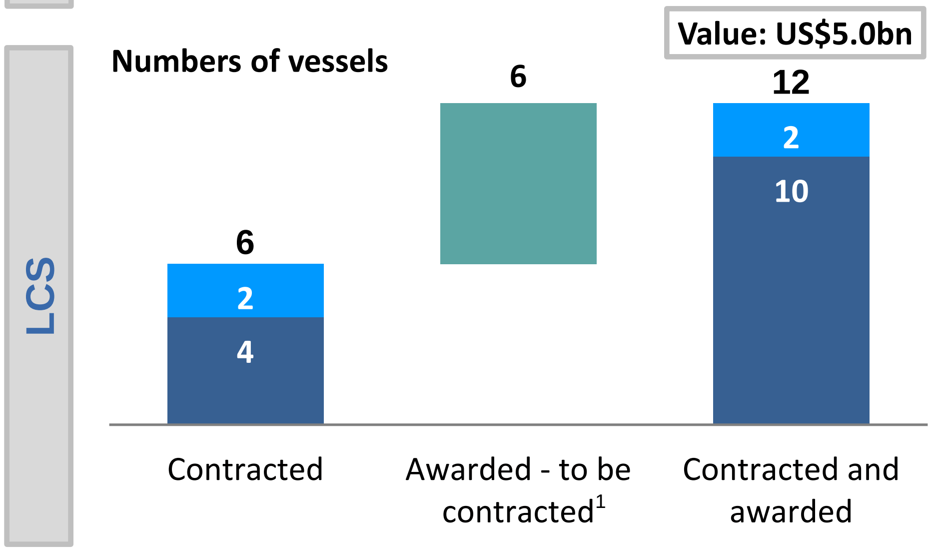


- Initial 10 ship award – value: US$1.6bn
- 9 currently contracted; next contract expected 1Q2013[1]
- First vessel is expected be delivered in November 2012
- Balance expected to be delivered through 2017
- Highly versatile platform; expected to remain part of Navy's long-term planning
- Potential export opportunities with U.S. friendly nations



- Initial 10 ship award to Austal (plus two with partner General Dynamics) – value: US$5.0bn
- 4 ships currently contracted (plus two with GD)
- Next contracts for two ships from existing award expected 1Q2013[1]
- LCS 2 complete; LCS 4 launched
- Balance of controlled vessels expected to be delivered through 2017
- LCS fleet size estimated at 50-60 vessels
- Navy expected to continue dual-sourcing model
- Potential military export opportunities with U.S. friendly nations

Represents LCS ships built with General Dynamics as the prime contractor

[1] Contracting of vessels awarded is not guaranteed and is subject to a number of risks, including those described under "Risk Factors"

Austal secured the A$330mm Cape Class contract in 2011

Overview

- In August 2011, Austal was awarded the contract for the design, construction and through life support of 8 new Cape Class Patrol Boats for the Australian Customs and Border Protection Service
- Contract value = A$330mm
  - Design and construction = A$280mm
  - In-Service Support = A$50mm
- The Cape Class Patrol Boats are being built at the Henderson Shipyard Operations, Western Australia
- All 8 vessels are due to be delivered between March 2013 and August 2015
- Commencement of the first Cape Class Patrol Boats and associated design work took place in FY12
  - Keel laying for 1st of 8 in June 2012
- Cape Class Patrol Boat contract expected to underwrite activity at Henderson Shipyard Operations until 2015

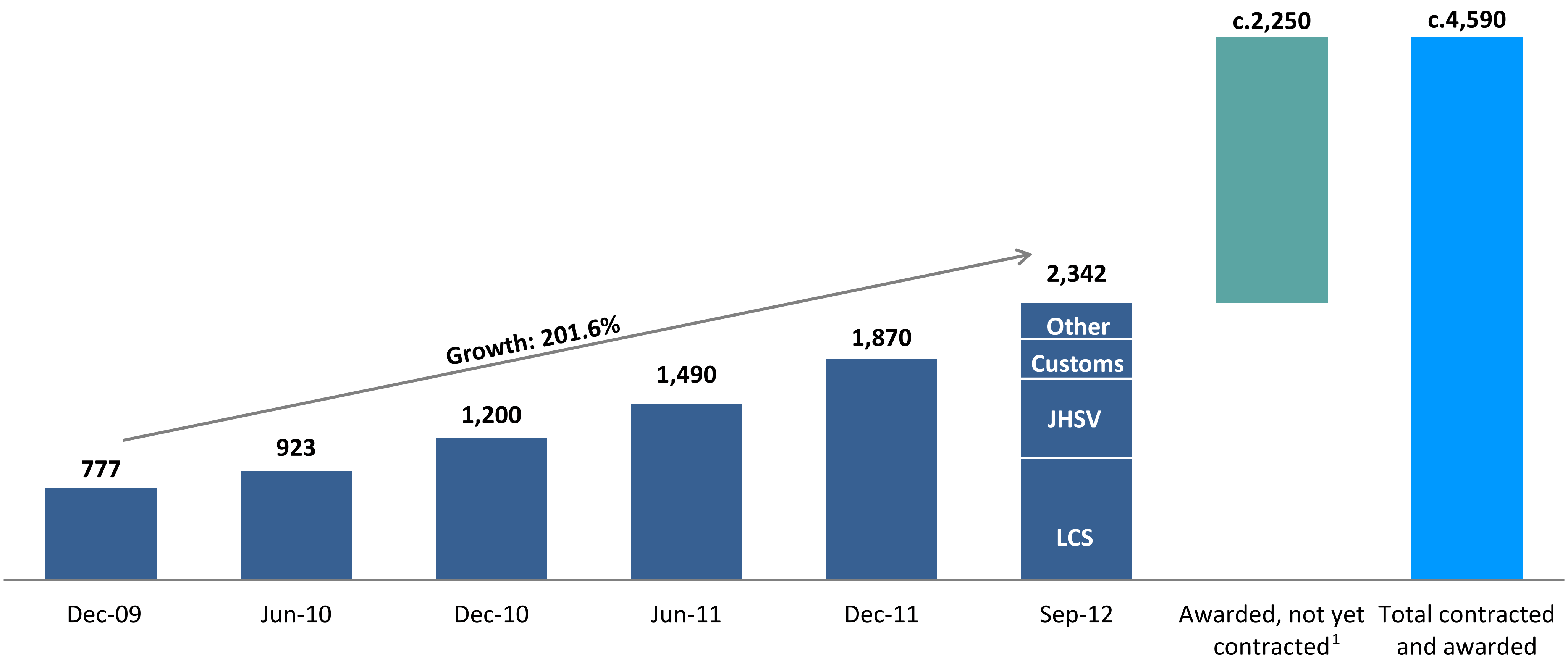
Services & Systems

- Secured initial 5 year maintenance contract for the Cape Class Patrol Boat program of A$50mm. Two options for Australian Customs for two further terms of 5 years each are included in the contract
- Strategic focus on the development of the Orion command and control system will provide a further source of future growth with the system to be deployed on the first Cape Class Patrol Boat

Cape Class Patrol Boat

Existing ship awards and contract wins have delivered a record order book for Austal

Order book (A$mm)



Current contracted order book provides four-year revenue visibility and significant further upside as awarded vessels are contracted[1]

[1] Contracting of vessels awarded is not guaranteed and is subject to a number of risks, including those described under "Risk Factors"

Service represents a significant long-term opportunity for Austal

- Installed value of currently contracted and awarded U.S. naval ships expected to be in the order of c.A$6.5bn once completed
- Annual maintenance / support expense in order of 10% of installed value, per ship per year, based on precedent experience
  - Provides significant recurring revenue opportunity post delivery
- JHSV and LCS ships have been designed for a 20 to 30 year service life
- Austal's proprietary IP and global footprint position the company to win a material share of through life support
- U.S. Navy's forward deployment model for LCS will also drive size of the through life support opportunity for Austal
- Would not require any significant capex investment to deliver – unique "asset light" model in place to execute
- Through life support contracts for both ship build programs will begin to be awarded in FY13, with Austal actively pursuing these service opportunities

Profitability improvement initiatives being successfully implemented

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Austal USA	▶ First in class issues associated with JHSV have been addressed ▶ Learnings being applied, with positive effect ▶ Revenue and EBIT in 2HFY12 vs 1HFY12 up 49% and 136%, respectively ▶ Labour cost per vessel continues to decline ▶ Major infrastructure investments have now been completed ▶ Expected JHSV and LCS contracts in 2HFY13 are expected to deliver a further increase in backlog
Henderson Shipyard Operations	▶ Strategically repositioned as defence focused facility ▶ Underpinned by recent Cape Class Patrol Boat contract award by Australian customs for 8 vessels through 2015, as well as through life support ▶ Significant rationalisation has been executed — Reduced manufacturing footprint, released surplus assets — Substantial workforce reduction ▶ Continuing to evaluate options for the two stock boats
Philippine Shipyard Operations	▶ Enables Austal to cost competitively serve global commercial market (eg. windfarm support vessels) ▶ Substantial cost advantage versus Henderson Shipyard Operations and most competitors globally, with access to pool of proven skilled labour ▶ Minimal further capital injection to establish required infrastructure, which will be completed in FY13 ▶ Order book starting to fill – currently full through calendar year 2013 ▶ Employee ramp up to 225 achieved as planned; further increase in employees planned to increase capacity ▶ Leveraged to recovery in global commercial market

Debt refinancing

- Concurrently with the Offer, Austal has received credit approved commitments from its lenders for new three-year syndicated term facilities
- The new facilities replace Austal's existing short-term (18 month) banking arrangements and ensure the company has no material near-term refinancing requirements
- Core syndicated facilities
  - A$50mm revolving credit facility – for general corporate purposes, including construction funding
  - A$125mm performance bonding and guarantee facilities – to support ongoing tendering and shipbuilding operations
  - US$30mm amortising asset financing facility – equipment financing for Mobile shipyard
  - US$225mm Stand-By Letter of Credit ("SBLC") facility – providing credit support for Austal's Go-Zone Bonds
- The Go-Zone Bonds are securities issued by U.S. Government Agencies, with funds provided to Austal on a 30-year term at a floating interest rate
  - Credit support for the Go-Zone Bonds via the SBLC facility is provided by its Australian lenders
- The new syndicated facility includes a standard covenant package
  - Gearing
  - Net Debt/EBITDA
  - EBITDA/net interest
- On a pro-forma basis, Austal is expected to remain comfortably within its covenants
- Following the Entitlement Offer, Austal is expected, at current base interest rates, to have an average annual interest expense of approximately 3.5 – 4.0%

Sources and uses

Overview

- Entitlement Offer of A$61mm up to A$86mm, with net proceeds of up to approximately A$82mm to be exclusively used to reduce net indebtedness
  - A$23mm reduction in drawn working capital facilities
  - Up to A$59mm collateral support for Go-Zone Bonds letters of credit
- The Go-Zone Bond facilities represent an attractive source of funding for Austal in a 30-year term and low funding costs
- There will be two changes in the A$217mm of Go-Zone Bonds as at 30 September
  - Austal will permanently reduce approximately A$35mm of Go-Zone Bonds, using excess restricted cash in place prior to the Entitlement Offer
  - To retain access to the Go-Zone Bonds (which are not available for redraw if repaid), up to A$59mm[1] from the Entitlement Offer will be applied to support the SBLC – this cash will not be available to Austal for corporate purposes

Illustrative Offer Proceeds and Uses (A$mm)

Sources		Uses	
Underwritten institutional component	61	Reduction in WC facilities	23
Retail component	25	Go-Zone Bonds letters of credit collateral	59[1]
		Fees and expenses	4[2]
Total	**86**	**Total**	**86**

Note: assuming fully subscribed Entitlement Offer of up to A$86mm

[1] Assuming only the underwritten institutional component of A$61mm, would result in c.A$35mm being used for collateral support for Go-Zone Bonds letters of credit; [2] Includes debt and equity issuance fees

Proceeds significantly strengthen Austal's balance sheet

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Overview

- Post the capital raising, Austal's financial position will be significantly strengthened assuming minimum proceeds raised of A$61mm
  - Pro forma Gearing[1] reduced from 38.7% to 26.7%[2]
  - Net Debt / EBITDA[3] reduced from 2.8x to 1.9x[2]
  - No significant debt maturity prior to FY16
- Austal is committed to maintaining a conservative capital structure moving forward
  - Targeting through the cycle leverage of 1.5-2.5x Net Debt/EBITDA
- On a pro-forma basis, Austal is expected to remain comfortably within its covenants
- Austal will benefit from significantly reduced capital expenditure requirements in FY13
  - Mobile shipyard expansion largely complete
  - Minimal further investment required in Philippine Shipyard Operations
- Potential sale or leasing of stock boats represent incremental potential sources of capital for Austal

Pro forma capitalisation

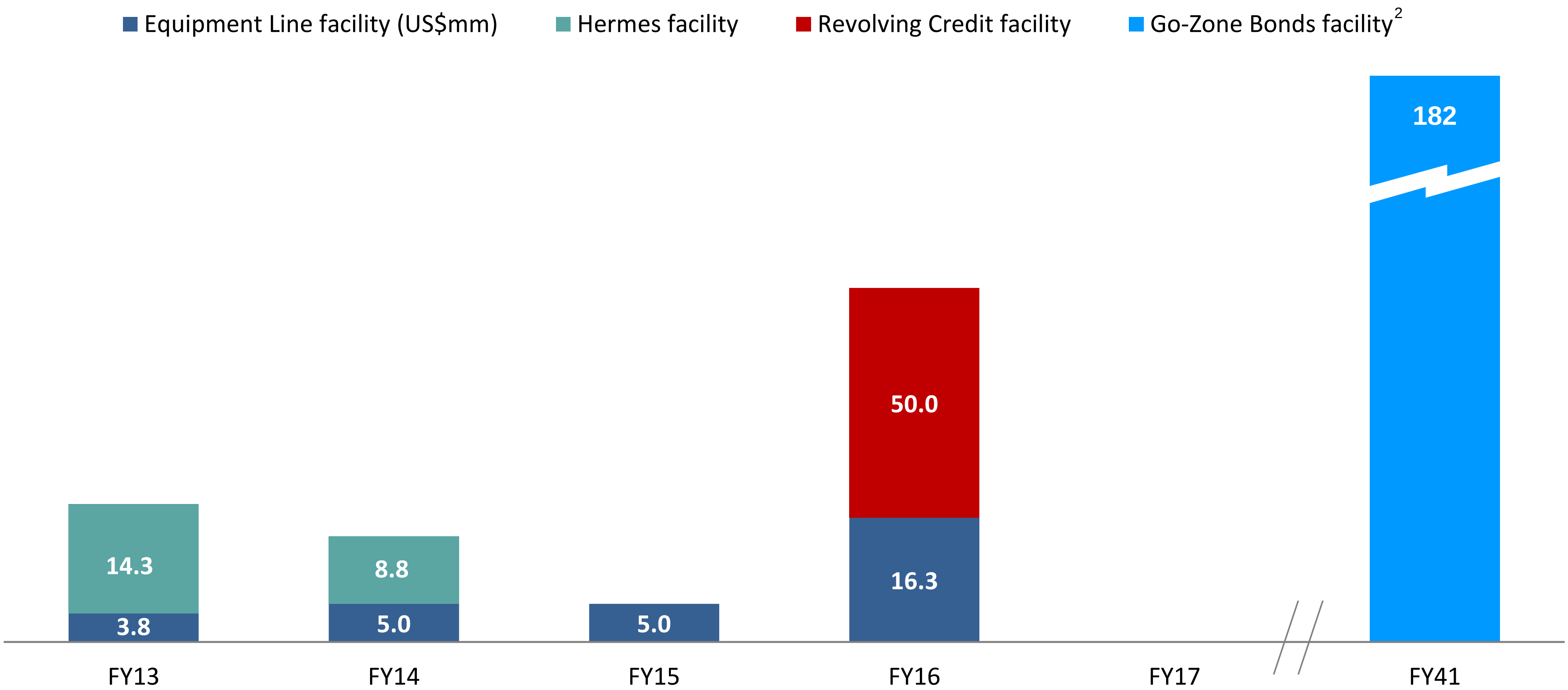
	Jun-12A	Sep-12A	Underwritten Amount Sep-12PF[2]	Fully Subscribed Sep-12PF[4]
Capitalisation (A$mm)				
Cash	51.8	26.8	26.8	26.8
Go-Zone Bonds cash collateralisation	0.0	0.0	34.6	59.0
Restricted cash	52.9	48.6	13.6	13.6
Total cash	104.8	75.4	75.0	99.4
Go-Zone Bonds	219.4	217.3	182.3	182.3
Other	46.0	45.8	22.8	22.8
Gross debt	265.4	263.1	205.1	205.1
Net Debt (incl. restricted cash)	160.7	187.7	130.1	105.7
Shareholder's equity	277.0	297.3	356.5	380.8
Total capitalisation (incl. restricted cash)	437.7	485.0	486.6	486.4
Net tangible assets	272.0	292.1	351.2	375.5
Credit metrics				
Net Debt / FY13 EBITDA[3] (incl. restricted cash)	2.4x	2.8x	1.9x	1.6x
Gearing[1] (incl. restricted cash)	36.7%	38.7%	26.7%	21.7%

[1] Net Debt / (Net Debt + Book equity)
[2] Based on net proceeds from the underwritten capital raise of A$61mm, less related fees and expenses of A$3.4mm. Includes A$35mm in excess Go-Zone Bond (GZB) proceeds which are proposed to be cancelled as part of this refinancing
[3] FY13 EBITDA represents mid-point of guidance range and includes one-off pre-tax gain on sale of excess land of A$4.8mm. Austal's FY13 guidance is not a forecast and there can be no assurance that Austal will achieve the results indicated. The guidance is based on a number of assumptions, including: contracted revenues, projected costs, the timing and quantum of revenues, foreign exchange rates and the realisation of stock vessels and is subject to a number of risks, including those described under "Risk Factors". Investors are cautioned not to place undue reliance on the guidance
[4] Based on net proceeds assuming fully subscribed capital raise of up to A$86mm, less related fees and expenses of A$4.0mm and includes Go-Zone Bond retirement of A$35mm

New committed bank facilities will extend Austal's debt maturity profile

AUSTAL

Pro forma debt maturity profile (A$mm unless otherwise stated)[1]



[1] Based on total facility size limit. Excludes Standby Letters of Credit, guarantees, bonding facilities and other off-balance sheet items
[2] Pro forma for planned cancellation of A$35mm of excess GZB proceeds – Go-Zone Bonds facility is supported by a three year credit wrap by Austal's lenders

Group outlook

- FY13 EBITDA and NPAT guidance in the range of A$A65-71mm[1] and A$23-26mm[1] respectively[2]
- **Austal USA**
  - Successfully applying learnings from "first in class" issues with the JHSV program and seeing sustained improvement in margins
  - Further contracts expected for JHSV10, LCS14 and LCS16 during 1Q2013[3]
  - Expected to generate revenue in excess of US$700mm in FY13
- **Henderson Shipyard Operations**
  - Focused on execution of Cape Class contract which underwrites operations through to FY15
  - Strong potential pipeline of defence export opportunities developing
  - Expected to operate at a break-even level in FY13
- **Philippine Shipyard Operations**
  - Completing technology transfer and ramp-up of production
  - Operations at close to full capacity currently and a number of forward opportunities pending
  - Expected to operate profitably in FY13
- Continued growth in Systems and Support Divisions expected; uniquely positioned to benefit from the U.S. Navy's forward deployment strategy
- With continued focus on growth through FY13 no dividends are expected to be declared

[1] EBITDA includes one-off pre-tax gain on sale of excess land of A$4.8mm; NPAT includes one-off post-tax gain on sale of excess land of A$3.4mm
[2] Austal's FY13 guidance is not a forecast and there can be no assurance that Austal will achieve the results indicated. The guidance is based on a number of assumptions, including: contracted revenues, projected costs, the timing and quantum of revenues, foreign exchange rates and the realisation of stock vessels and is subject to a number of risks, including those described under "Risk Factors". Investors are cautioned not to place undue reliance on the guidance
[3] Contracting of vessels awarded is not guaranteed and is subject to a number of risks, including those described under "Risk Factors"

Risk factors and foreign selling restrictions

AUSTAL

Risk Factors

Contract nature of the business

- The ship manufacturing industry, by its nature, is dependent on large orders, the timing of which does not always ensure an even work flow. As for all participants in the ship manufacturing industry, the economic performance of the shipyards operated by Austal and Austal's business may be materially affected by Austal's success in securing significant contract awards.
- In addition, any change in the sale of one vessel can have a significant impact on the financial performance and cash flows of Austal.
- A majority of Austal's major contracts are with governments and their instrumentalities. Under tender arrangements for government contracts, the relevant government generally "awards" a specified number of vessels to be constructed by the successful tenderer over a specified time under an overarching contract award. The awarded vessels are then "contracted" over time, via individual detailed contracts. There is no guarantee that awarded vessels will be converted into contracted vessels. The relevant government may seek to cancel the construction of vessels after they have been awarded or contracted. In those cases, Austal may seek a right of economic adjustment, though there is no guarantee that such an economic adjustment would be obtained or, if obtained, would fully compensate Austal. As a result Austal's financial performance may be materially adversely affected.
- Contracts are generally negotiated on an individual basis, and typically contain terms for delivery dates and specifications. Failure to meet delivery dates or specifications may give rise to a capacity for the counterparty to terminate and financial liability under the contracts.
- Further, Austal usually operates on the basis of lump sum contracts. Where Austal enters into contracts for novel and innovative vessels, there is a risk of cost overruns associated with design, oversight and rework exceeding Austal's expectations. For example, as previously disclosed, Austal encountered first in class issues in the design and construction of the first Joint High Speed Vessel. Austal has since undertaken internal and external reviews and the lessons learnt from the production of JHSV1 are being incorporated in future builds.
- Austal designs, develops and manufactures products and services applied by its customers in a variety of environments. Problems and delays in development or delivery of subcontractor components or services as a result of issues with respect to design, technology, licensing and patent rights, labour, learning curve assumptions or materials and components could prevent Austal from achieving contractual requirements.

Risk Factors

Large reliance on single customer - the U.S. Navy

- Almost 90% of Austal's FY12A revenue was generated in the United States, derived from contracts with the U.S. Navy. Austal faces significant risk in earnings if the programs with the U.S. Navy are cancelled or scaled back or future projects from the U.S. Navy are not awarded to Austal.
- Austal has limited operational focus outside of the USA operations - the Henderson Shipyard and the Philippines Shipyard and its service and support business. These operations do not currently have a sufficient project pipeline to maintain Austal's current and expected financial performance if the Austal USA business was to face adverse conditions. Accordingly, Austal shareholders face greater risk than shareholders in a company with more diverse and equally spread operational focus.
- In addition, as a U.S. Government contractor, Austal must comply with a variety of significant regulations. These regulations and requirements can increase Austal's performance and compliance costs. If any such regulations or requirements change, Austal's cost of complying with them could increase, leading to reduced margins. The impact of these potential regulatory changes on overall performance is heightened due to the reliance on the U.S. Navy as Austal's major customer.

Exposure to U.S. government budgets and elections

- As a defence contractor, Austal's financial performance is directly dependent on congressional allocation of defense monies to the U.S. Navy. The funding of the U.S. Government programs is subject to congressional budget authorization and appropriation processes. The U.S. Government's 2012 Shipbuilding Plan uses, as a baseline, a 328-ship force, up from the former 313-ship force that was first proposed by the U.S. Navy to Congress in 2006. Of the 328-ship force, the 2012 Shipbuilding Plan currently anticipates procurement of 275 ships during the next 30 years. Austal cannot predict the extent to which total funding and/or funding for individual programs (such as the JHSV and the LCS) will be included, increased or reduced as part of the fiscal year 2013 budget and subsequent budgets ultimately approved by Congress or will be included in the scope of separate supplemental appropriations.
- Consequently Austal faces risks that could affect financial performance and cash flows owing to the result of the U.S. elections and budget outcomes which, in turn, can effect the future expenditure on U.S. Naval programs.
- U.S. defence spending may also be affected by "sequestration" under the Budget Control Act of 2011. The Budget Control Act contemplates the possibility of "sequestration", being an additional $500 billion of defence spending cuts over the next 10 years if a means to reduce the US deficit is not identified by the end of calendar 2012. If sequestration were to occur there would be significant cuts to defence spending and Austal's contracts with the U.S. Navy may be cancelled. As of the date of this presentation, it is not clear if or when sequestration may occur, and how cuts would be implemented. Funding reductions imposed by the sequester mechanism could have a material adverse impact on Austal's financial performance.

Risk Factors

Reliance on success of LCS contract

- The LCS program with the U.S. Navy represents the majority of Austal's current awarded work. Although no material issues with the LCS have been encountered to date (Austal has delivered the first LCS and anticipates delivering the second LCS in the second quarter of 2013), Austal is exposed to the risk that the LCS vessels may not perform to the required standard. If there are problems with the LCS, there is a risk that the rollout of the full program will be cancelled by the U.S. Navy. Given the importance of the LCS program to Austal's operations the cancellation of the LCS program would have a material adverse impact on financial performance and cash flows.

Management of growth

- As discussed above, the focus of Austal's operations is in the United States at its facility in Mobile, Alabama. In order to fulfil the U.S. Navy contracts, Austal's operations and workforce in the United States have grown rapidly and further growth, to a workforce of 4,000 employees by the end of 2013, is targeted.
- As for any company experiencing rapid growth in its operations, there is a risk that Austal will not be able to implement and sustain its rapid growth in the U.S. In addition, to manage Austal's anticipated growth effectively, Austal will need to expand, train and manage its employees. Austal may have difficulty in finding employees with sufficient management and supervisory experience to achieve this growth. Austal is developing a training and development program for its staff that is directed to expanding the management and leadership skills in its U.S. operations.

Risk Factors

Competition in the U.S. shipbuilding market

- The reduced level of shipbuilding activity by the U.S. Navy, evidenced by the reduction in fleet size from 566 ships in 1989 to 285 ships as of June 2011, has resulted in workforce reductions in the industry but with little infrastructure consolidation. Competition for future programs is expected to be intense. If there is no further consolidation of infrastructure and the demand for vessels remains at these lower levels, there is likely to be increased pressure on Austal's margins and profitability.

Current challenging conditions of commercial shipbuilding markets

- The market for commercial shipbuilding has experienced difficult market conditions over the past few years. Overall global economic weakness and the strong A$ has contributed to lower demand for commercial ferries and other commercial vessels, evidenced by the lack of profitability of the Henderson shipyards for the last two years and the difficulty in finding a buyer for current stock vessels (such as the Oceanfast luxury yacht). Austal's exposure to the market for commercial shipbuilding is limited to some extent given that Austal's primary activities are supporting government defence and customs programs. In addition, Austal has established the Philippines Shipyard Operations as Austal's centre for commercial shipbuilding to facilitate Austal competing effectively in pursuing commercial shipbuilding opportunities. Despite this, there is a risk that poor conditions in the market for commercial shipbuilding will prevail in the future leading to a negative effect on the financial performance and cash flows of Austal.

Liabilities for defective designs or construction

- The laws in some countries hold the shipbuilder liable for damages or losses to property and life arising from negligence in design or construction. Not every risk or liability can be protected against by insurance or making provision for warranty works, and, for insurable risks, the limits of coverage reasonably obtainable in the market may not be sufficient to cover all actual losses or liabilities incurred.
- Additionally, disputes with insurers over coverage may affect the timing of cash flows, and, if these disputes lead to litigation, an outcome unfavorable to Austal may have a material adverse effect on Austal's financial position, results of operation or cash flows.
- Austal is also exposed to potential legal and other claims or disputes in the course of its business, including contractual disputes and warranty claims. Austal takes legal advice in respect of such claims, and where relevant, makes provisions in its financial statements. Although Austal seeks to minimise the risk of such claims arising, and their impact if they do arise, such claims may arise from time to time and could adversely affect Austal's business, results of operations or financial condition and performance.

Risk Factors

Stock vessels and large ferry contracts

- Austal has, on occasion, commenced the construction of a vessel without a firm order so as to maintain efficient utilization of its production facilities and labour force, and may do so in the future. All stock vessels are built to widely acceptable configuration to ensure they appeal to the widest possible group of prospective purchasers.
- The risks associated with this activity include the requirement for the Company to fund construction of the stock vessel, the prospect of not securing a purchaser on a timely basis or at a lower price than normally acceptable, or being forced to take an equity position in a ferry operation or arrange a charter in lieu of an outright sale.

Intellectual property risks

- Austal relies on proprietary technology, information, processes and know-how, some of which is protected by patents and other forms of intellectual property protection. Although Austal is not currently aware of any challenges to or infringements of its intellectual property rights, these may be subject to challenge, invalidation, misappropriation or circumvention by third parties. Austal seeks to protect intellectual property through trade secrets or confidentiality agreements with employees, consultants, subcontractors and other parties, as well as through other security measures. However, these agreements may not provide meaningful protection for any unpatented proprietary information.
- In the event that intellectual property rights are infringed, Austal may not have adequate legal remedies to maintain its rights in its intellectual property. Litigation in relation to any intellectual property disputes could be costly and be a diversion of management's attention away from the core purpose of the business. In addition, trade secrets may otherwise become known or independently developed by competitors.

Risk Factors

Foreign exchange rate risks

- Austal is an Australian company that reports in Australian dollars. It derives revenue from business activities in Australia and foreign countries, including the Philippines and the U.S, where its costs may be incurred and revenue may be earned in a different currency. Movements in the exchange rate may therefore adversely or beneficially affect Austal's operations and cash flows.
- Where Austal is materially exposed to fluctuations in foreign exchange rates, it attempts to offset this exposure through the use of appropriate financial instruments, such as hedging or forward rate contracts.
- There may be circumstances where Austal is unable to sufficiently minimise its exposure to foreign exchange rate movements where the cost of financial products is not commercially viable.

Natural disaster damage and disruptions factors

- Austal has operations located in regions around the world that have been and may be exposed to damaging storms, such as hurricanes, and environmental disasters, such as oil spills. Although preventative measures may help to mitigate damage, the damage and disruption resulting from natural and environmental disasters may be significant. Should insurance or other risk transfer mechanisms be unavailable or insufficient to recover all costs, Austal could experience a material adverse effect on our financial position, results of operations or cash flows.

Other risks

- There are a number of other risks that are relevant to the Austal business that have not been discussed in detail. In summary they include, but are not limited to stock market movements, national and international economic conditions, changes in taxation, government policy changes, and industrial relations.

Foreign selling restrictions

This document does not constitute an offer of new ordinary shares ("New Shares") of the Company in any jurisdiction in which it would be unlawful. New Shares may not be offered or sold in any country outside Australia except to the extent permitted below.

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  - to any legal entity that satisfies two of the following three criteria: (i) balance sheet total of at least €20,000,000; (ii) annual net turnover of at least €40,000,000 and (iii) own funds of at least €2,000,000 (as shown on its last annual unconsolidated or consolidated financial statements);
  - to any person or entity who has requested to be treated as a professional client in accordance with the EU Markets in Financial Instruments Directive (Directive 2004/39/EC, "MiFID"); or
  - to any person or entity who is recognised as an eligible counterparty in accordance with Article 24 of the MiFID.

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Foreign selling restrictions

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Foreign selling restrictions

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- Other than in the entitlement offer, New Shares may be offered and sold in New Zealand only to:
  - persons whose principal business is the investment of money or who, in the course of and for the purposes of their business, habitually invest money; or
  - persons who are each required to (i) pay a minimum subscription price of at least NZ$500,000 for the securities before allotment or (ii) have previously paid a minimum subscription price of at least NZ$500,000 for securities of the Company ("initial securities") in a single transaction before the allotment of such initial securities and such allotment was not more than 18 months prior to the date of this document.

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Foreign selling restrictions

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