AUSTAL
LIMITED

COMPANY ANNOUNCEMENT
28 AUGUST 2017

AUSTAL MEETS EARNINGS GUIDANCE AS MAJOR US NAVY CONTRACTS PERFORM STRONGLY

Summary:

- Revenue of $1.31 billion (FY2016: $1.34 billion)
- Underlying EBIT of $58.7 million exceeds EBIT guidance provided in July 2016[1]
- Net cash position of $19.3 million[2]
- Result driven by a significant turnaround in US operations, with the 6.8% shipbuilding margin now at the upper level of the guidance range (5 – 7%) due to improved operational efficiency on the LCS program
- Fully franked final dividend of 2 cents per share in addition to the 2 cent interim dividend (FY2016: 2 cents per share, fully franked final dividend)
- $3.0 billion order book across USA, Australia, Philippines and China
- Major opportunities in the USA (FFG(X)), Australia (OPV) and Philippines (commercial vessels) under development
- Outcome of Austal's largest ever Australian contract bid – the $3 billion ($1 billion construction), 12 ship Offshore Patrol Vessel contract – expected by the end of CY2017
- FY2018 group revenue guidance of $1.3 – $1.4 billion (FX dependent) and increased US shipbuilding margin guidance of 6 – 8%
- Underlying NPAT of $32.7 million[3] and statutory NPAT of $15.3 million

[1] Excludes $(13.2) million arbitration settlement related to a vessel constructed in 2010.
[2] Excludes residual buyback guarantee for the Cape Class Patrol Boat 9 & 10 lease program with National Australia Bank and the Royal Australian Navy
[3] Excludes after tax impact of arbitration settlement and irregular tax items, primarily non-recognition of carry forward tax losses in Australia.

Austal Limited (Austal) (ASX:ASB) has reported its results for the year ended 30 June 2017, with underlying earnings exceeding guidance given at the start of the year. This outcome was driven by a strong performance from the USA as the Littoral Combat Ship program continued to mature as expected.

Austal returned to profitability, with an underlying NPAT of $32.7 million (FY2016: $25.0 million). The underlying number is derived after removing the vessel arbitration settlement ($9.2 million after tax) and irregular tax timing impacts ($8.1 million) relating to non-recognition of carry forward tax losses in Australia. Statutory Net Profit After Tax was $15.3 million (FY2016: $84.2 million Net Loss after Tax).

Austal USA contributed EBIT of $76.1 million and a shipbuilding margin of 6.8 per cent - at the upper end of the guidance range (5–7 per cent), reflecting increased confidence in the Littoral Combat Ship program. This margin guidance will now be adjusted upwards to 6 - 8 %. Earnings from Australia and the Philippines shipyards were subdued as anticipated, with construction volume in both yards limited during the period. Both yards are expected to increase throughout from now as the current order book matures into profitable activity and increased volume and near term potential orders are won.

Austal Chief Executive Officer David Singleton said the result from Austal's US shipyard was testament to the advanced shipbuilding techniques Austal had developed.

"Our ability to efficiently deliver two separate military programs to the world's largest and most sophisticated Navy demonstrates the expertise that this Australian shipbuilder has as a global prime contractor," Mr Singleton said.

"Our advanced modular manufacturing facility in the US has allowed us to deliver significant efficiency gains on the multi-billion dollar Littoral Combat Ship program."

"Our confidence in the costs to complete of the LCS program continues to increase. The recent award of LCS 28 will drive additional profit growth because it was bid and won using a revised construction cost base which can assure a normal level of profit for a program of this type."

"The result from our Australian operations was largely anticipated, given that two major vessel programs have been progressing through their low revenue design phase during FY2017 in addition to a limited contribution from the Cape Class Patrol Boats 9 and 10 charters because they commenced late in the financial year.
We also indicated that we would not recognise profit on the $305 million Pacific Patrol Boat contract,

until it had matured significantly; I am pleased to report that current projections that this will be achieved are positive."

The only negative issue in Australia during the year was costs associated with the Cape Class Patrol Boat In-Service Support contract which has been significantly more costly to deliver than expected when the contract was signed 6 years ago, at a time when the Company had significantly less experience in prime contracting vessel support to a customer of this complexity. However our focus has been to ensure that the Australian Border Force are well supported in their vital mission and to seek commercial resolution with them to recover the provision now taken to the end of the program.

"The Philippines shipyard transitioned from a loss in the first half to a profit in the second half of FY2017 reflecting the positive impact of the change in management which has brought a much higher degree of experience and professionalism to the yard. Whilst the vessels built have all been profitable, volumes have historically been at a level below which we can adequately recover all of the overheads of the operations. However we are now confident that vessel orders recently won and the strong pipeline for new commercial vessels can deliver a progressive change in throughput and profitability from the shipyard over the next 2 years."

SEGMENT RESULTS

USA

Austal's USA segment reported revenue of $1.17 billion (FY2016: $1.13 billion), with a segment EBIT of $76.1 million (FY2016: $90.5 million EBIT loss).

This result was driven by the work on 12 vessels under construction across Austal's two major defence contracts for the U.S. Navy – the ~US$4.5 billion Littoral Combat Ship (LCS) contract and ~US$1.9 billion Expeditionary Fast Transport (EPF) contract – as well as ongoing strong performance from support activities. The result was a significant turnaround on the FY2016 result which we believe will now be sustained.

USA shipbuilding EBIT margin was 6.8 per cent and therefore at the upper end of the Company's 5 – 7% guidance. This improvement was achieved by greater operational efficiency on the LCS program as Austal continued to move down the construction learning curve, evidenced by fewer labour hours per ship, fewer modifications, and more effective utilisation of Austal's advanced Modular Manufacturing Facility (MMF). Austal is confident that a turnaround on the LCS program is developing well and will be further demonstrated when LCS 14 is delivered towards the end of

CY2017. Meanwhile, the EPF program continued to deliver strong financial results in the year with exceptional operational performance showing what can be achieved as programs mature.

Australia

Australia reported revenue of $113.7 million (FY2016: $187.1 million), with a segment EBIT loss of $(2.1) million (FY2016: $6.8 million EBIT). This revenue level was predicted and represents a 5 year low as the business transitions between programs.

The shipyard was in the front-end design phase on two significant vessel programs for the majority of the year; the $305 million, 19-ship Pacific Patrol Boat (PPB) program and the ~$90 million 109 metre Mols vehicle passenger ferry. This period delivers limited revenue and profitability compared to the construction phase and profitability is also inhibited because of the conservative profit recognition treatment adopted last year. However both programs are now in full scale production as evidenced by a 40 per cent revenue increase from FY2017 H1 ($47.4 million) to FY2017 H2 ($66.4 million). Separately, Australia's earnings were adversely impacted by financial performance on the Cape Class Patrol Boat support contract, with more resources required to conduct in-service support activities than anticipated when the contract was signed prior to the vessels' construction. In light of this, Austal has elected to book a $(3.2) million provision in FY2017 against the remainder of the contract through to August 2019. In addition, Austal received only limited earnings from Cape Class Patrol Boats 9 and 10 in FY2017 given the three year charter only commenced late in the financial year, as anticipated. A full year's charter income will be earnt in FY2018.

Construction work at the Australian shipyard has ramped up significantly into FY2018. The PPB program is performing in line with its contract schedule and budget, with a dedicated steel shipbuilding facility, new to Austal, opened and the keel laid for the first vessel. This strategically important contract – the first major steel navy fleet built by Austal – is the first phase in the Australian government's $89 billion shipbuilding program. Austal revised its profit recognition process in FY2017 and as a result, profit from this contract is not expected to be recognised until FY2019, when the first vessel is scheduled to be delivered and any significant first-in-class risks have been eliminated or retired. Construction work is also continuing on the Mols vehicle passenger ferry which is on time and on budget. Austal will continue to perform remediation work on the fleet of Armidale patrol boats, a program which has been performing well. Meanwhile, Austal remains in constructive discussions with Australian Border Force regarding a contract amendment to recognise the additional resources required on the Cape Class Patrol Boat management support contract.

Philippines

Austal's Philippines segment reported revenue of $33.8 million (FY2016: $33.9 million), with a segment EBIT of $0.3 million (FY2016: $3.8 million EBIT loss) which highlights the improved performance of the yard.

Austal re-organised its management team at the shipyard in early FY2017 in order to improve performance and to get the facility ready for higher anticipated throughput in future years. This change delivered positive results, with the team delivering two 30 metre ferries valued at $13 million in June 2017, both on time and ahead of budget, enabling the shipyard to turnaround an EBIT loss in FY2017 H1 to an EBIT profit in FY2017 H2. A ~$26 million, 57 metre offshore crew transfer boat was delivered in FY2017 H1 and a $16 million, 50 metre ferry was constructed during the year prior to delivery to Seaspovill of South Korea in July 2017.

The Philippines shipyard remains critical in ensuring Austal maintains its leading position in the fast ferry market. The commercial vessel pipeline is strong and this is starting to translate to new contracts, as seen with the recent award of a $108 million contract with Fjord Line of Norway to design and build a 109 metre high-speed vehicle passenger ferry. This contract reaffirmed Austal's position as Australia's pre-eminent shipbuilder of large high-speed commercial craft and will provide an increasing level of throughput and profitability for the Philippines shipyard over the next 2 years. Austal intends to expand its build and launch facilities following the award of the Fjord Line contract, to accommodate the construction of larger vessels, with works to commence in FY2018. There are also additional vessels in the pipeline which, if secured will further enhance throughput and profitability. Meanwhile, two additional vessels are currently under construction – a $22 million, 56 metre high-speed passenger ferry for FRS Group of Germany and a $5.6 million, 35 metre high speed catamaran at Austal's Chinese joint venture Aulong Shipbuilding.

Group

Austal settled a seven-year-old arbitration matter during the year, resulting in a one-off $(13.2) million settlement that was recorded in the Company's FY2017 H1 results. This settlement related to a vessel delivered in CY2010.

Austal's effective rate of tax of 61% (accounting) was distorted by the strong profit in the USA combined with a loss in Australia (combination of the Australia segment and the majority of Group corporate overhead), as well as no recognition of tax losses in Australia. The underlying effective rate of tax was 38% after excluding the non-recognition of tax losses and after tax impact of the legal settlement in Australia. Actual cash tax in FY2017 was a refund of $12.2 million.

CASH AND CAPITAL MANAGEMENT

Austal ended the year in a net cash position of $19.3 million. This result excludes the impact of the Cape Class Patrol Boat 9 & 10 leasing program where the financial treatment of the residual value guarantee reduces the net cash by $65.2 million to a net debt level of $(45.9) million at 30 June 2017. Austal expects to enter into negotiations to extend this lease arrangement which would likely have the effect of reducing or eliminating the residual guarantee.

Notwithstanding this, Austal has historically fluctuated between a net cash / (debt) position from month-to-month over recent years given the nature of lump sum milestone payments in shipbuilding. Importantly, Austal has maintained a strong cash at bank balance of $150.4 million, supporting the ongoing payment of dividends.

FINAL DIVIDEND

Austal's Board has declared a final dividend of 2 cents per share, fully franked. Future dividends relating to FY2018 earnings are unlikely to be franked given the predominance of earnings generated in the USA (which do not generate franking credits) and the utilisation of carry forward losses and credits that will offset tax liability in Australia for several years.

Details of key dates regarding the dividend are:

- Ex-dividend date: Tuesday, 12 September 2017
- Record date: Wednesday, 13 September 2017
- Payment date: Friday, 6 October 2017

Shareholders may reinvest dividends in accordance with the dividend reinvestment plan established in February 2015. Further details are set out later in this announcement.

OUTLOOK

Austal expects FY2018 group revenue of $1.3 – 1.4 billion and has increased guidance on the US shipbuilding margin to 6–8 per cent.

Austal Chief Executive Officer David Singleton said the Company's performance and increasing pipeline of profitable work across all three shipyards provided increasing optimism for the future.

"We have confidence in the short term, that the turnaround on the LCS program is developing well and this – combined with the ongoing strong performance on the Expeditionary Fast Transport program – means we have increased our US shipbuilding margin guidance. This and improved volumes in Australia and the Philippines will underpin Austal's financial performance in FY2018," Mr Singleton said.

"Meanwhile, we are acutely aware of ensuring we are best positioned to capture the construction opportunities available in the defence sectors in Australia and the USA, and commercial vessels in the Philippines.

"In Australia, the outcome of procurement decisions on the Offshore Patrol Vessel by the end of the year and Future Frigate programs in particular will define the nature of our operations in this country for decades to come."

"In the USA, there is scope for us to win a further LCS contract in FY2018 and we are expecting additional orders in the next US financial year. Our US team is working hard to ensure Austal is a leading contender in the transition from the small surface combatant LCS concept to the FFG(X) frigate program which is expected to commence in 2020."

"In the Philippines, we are confident the strong pipeline for commercial vessels will convert into orders that will progressively deliver increased throughput for the shipyard."

"Our job is to make sure we keep delivering our current programs on time and on cost to demonstrate our proven ability as an Australian-based, global prime defence contractor and world leading aluminium commercial shipbuilder."

-Ends-

Conference Call

Chief Executive Officer David Singleton and Chief Financial Officer Greg Jason will hold an analyst and investor conference call today at 8:30am AWST / 10:30am AEST to discuss the Company's FY2017 results.

Conference call details:

Date:	Monday, 28 August 2017
Time:	8:30am Perth time (AWST) / 10:30am Sydney time (AEST) – participants are requested to dial in 5 minutes prior to the start time
Conference ID:	6678 1569

Dial-in details:

Domestic participants can dial either of the numbers below to join the call.

Toll free: 1800 123 296 or Toll: +61 2 8038 5221

International toll-free numbers are listed below. For countries not listed below, the Australian Toll number can be dialled.

Canada	1855 5616 766	New Zealand	0800 452 782
China	4001 203 085	Singapore	800 616 2288
Hong Kong	800 908 865	United Kingdom	0808 234 0757
India	1800 3010 6141	United States	1855 293 1544
Japan	0120 477 087		

Archived Call:
An archived copy of the conference call will be available shortly after the conclusion of the call via http://www.openbriefing.com/OB/2612.aspx.

Dividend Reinvestment Plan (DRP)

Austal invites all eligible shareholders to participate in the DRP subject to the DRP rules. The DRP will be available for the dividend payable on 6 October 2017 and apply for subsequent dividends unless notice is given of its suspension or termination.

The DRP allows eligible shareholders to elect to invest dividends in shares which rank equally with Austal ordinary shares. The DRP provides a convenient and cost effective way for eligible investors to invest part or all dividends into new Austal ordinary shares, without incurring brokerage charges or commission.

Ordinary shares will be issued to participants to satisfy any ordinary shares to be issued under the DRP relating to the 6 October 2017 dividend. The allocation price for the shares to be issued under the DRP will be calculated as the volume weighted average market price of Austal shares traded on the ASX over a period of 5 business days from Friday 15 September to Thursday 21 September 2017 (inclusive of those dates). No discount shall apply to the allocation price. Shares will be issued on Friday, 20 October 2017 following the payment of the dividend.

Participation in the DRP is open to all shareholders who have a registered address in Australia or New Zealand. A summary of the DRP rules and an application form for participation (Participation Notice) will be emailed to all shareholders. Shareholders who wish to participate in the DRP must return the Participation Notice to Austal's share registry, Advanced Share Registry by 5:00pm (WST) on Thursday, 14 September 2017. Details for Advanced Share Registry are:

> 110 Stirling Highway
> Nedlands, WA, Australia 6009
> Enquiries: (+61 8) 9389 8033

Shareholders may obtain a copy of the Participation Notice by contacting Advanced Share Registry. A summary of the DRP rules and the rules are available on Austal's website at www.austal.com.

Key dates to note for the application of the DRP to the upcoming dividend are:

- Last date for receipt of elections to participation in DRP: Thursday, 14 September 2017
- 5 trading day pricing period for DRP: Friday, 15 September – Thursday, 21 September 2017
- Date for issue of shares under DRP: Friday, 20 October 2017

Further information:

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About Austal

Austal is a global defence prime contractor and a designer and manufacturer of defence and commercial ships. For more than 28 years Austal has been a leader in the design, construction and maintenance of revolutionary ships for governments, navies and ferry operators around the world. More than 255 vessels have been delivered in that time.

Ships

Ships Defence vessels designed and built by Austal include multi-mission combatants, such as the Littoral Combat Ship (LCS) for the United States Navy and military high speed vessels for transport and humanitarian relief, such as the Expeditionary Fast Transport (EPF) ships for the U.S. Navy and High Speed Support Vessel (HSSV) for the Royal Navy of Oman. Austal also designs, constructs, integrates and maintains an extensive range of patrol and auxiliary vessels for government agencies globally, including the Cape Class Patrol Boat Program for Australian Border Force. Defence vessels are designed and constructed in Mobile, Alabama and in Henderson, Western Australia.

Austal has been at the forefront of the high speed ferry market since the early days of the industry. Our market leading designs of high performance aluminium vessels have long been at the heart of Austal's research and development. Today, commercial ship construction is centred on our shipyard in Balamban, Philippines.

Systems

Austal has expertise in integrating complex systems into its ships, including ride control, ship management, and communication, sensors and weapon systems.

Support

Austal provides a wide range of support services, including through life support, integrated logistics support, vessel sustainment and systems support. These services are delivered through our global support network in the USA, Australia, Asia, and the Middle East together with partner shipyards worldwide.