

2016 full year results



David Singleton, Chief Executive Officer
Greg Jason, Chief Financial Officer

29 August 2016

2016 highlights



Financial

- **Revenue:** \$1.34 billion
- **EBIT:** \$(120.9) million
- **NPAT:** \$(84.2) million
- **Net cash:** \$51.7 million
- **Final dividend:** 2.0 cents per share fully franked
- **US GZB Debt reduction:** US\$7.2 million
- **Order book:** \$3.4 billion, securing work through CY2021

Operational

➤ Maturing major programs:

- Drive LCS program down the learning curve
- Cape Class Patrol Boats 9 & 10 in production at Henderson for Royal Australian Navy, delivery in FY2017 H2
- HSSV for Royal Navy of Oman nearing completion following delivery of first vessel in May 2016
- Two oil & gas support vessels to be delivered in FY2017 H1
- 6 Armidale Class Patrol Boats now likely to come to Henderson for extensive remediation
- Mols ferry will commence construction in April 2017 with a 15 month construction phase
- PPB production commencing in FY2017 H2

Orders

➤ Pipeline:

- Extension of US Navy programs (LCS & EPF)
- Defence vessels to Middle East
- Australian OPV contract to be bid with potential down selection in FY2017
- Commercial ferry market strengthening with 5 ferries so far signed in CY2016 and more being bid

Capital

- **Cash:** Continued cash generation
- **Debt:** Further debt reduction planned

LCS program update



Shock trials completed

- USS Jackson (LCS 6) successfully completed Full Ship Shock Trials in July 2016
- USS Jackson is due to re-join the US Navy in September
- Final data analysis by the US Navy may take several months
- Modification program to ships under construction is well advanced and levels of new modifications has dropped dramatically

Profitability

- Year end audit has supported guidance profitability
- Profit will be recognised conservatively in FY2017
- LCS is expected to be profitable over the remaining life of the program

Future vessels

- US Navy appears likely to place additional LCS orders in US Government fiscal year 2017

Financials



Earnings in line with guidance



Income statement	FY2016 (A\$m)*	FY2015 (A\$m)^	Change
Revenue	1,339.9	1,414.9	(5)%
EBITDA	(91.0)	109.5	(183)%
- Underlying	65.0	97.9	(34)%
EBIT	(120.9)	85.2	(242)%
- Underlying	35.1	73.6	(52)%
NPAT	(84.2)	53.1	(258)%
- Underlying	25.0	45.0	(44)%
Reported EPS	(24.2)¢	15.5¢	(256)%

- **Revenue** decrease driven by write down of LCS work in progress (WIP) with FX offset
- Primary drivers of **EBIT** reduction:
 - LCS WIP write down (\$156 million in USA and \$3 million in Australia)
 - Lower activity in Australia following CCPB 1 – 8 and Oman HSSV
 - CCPB 9 & 10 – no profit recognition in FY2016 under financing arrangement
 - Warranty provision

* FY2016 underlying earnings removes the impact of a downward adjustment to revenue made to account for a change in the estimated cost to completion for the Littoral Combat Ship program

^ FY2015 underlying earnings removes the benefit from the foreign exchange mark-to-market revaluation of intercompany loans. Those loans were converted to equity in FY2015 H2 and have not impacted the FY2016 result.

Segment breakdown



	(\$m)	Ships	Systems	Support	Other ¹	Total
USA	Revenue	821.4	213.9	97.8	-	1,133.0
	EBIT	(90.8)	2.2	6.0	(8.0)	(90.5)
	EBIT Margin %	(11.1)	1.0	6.2	-	(8.0)
Australia	Revenue	139.0	-	48.0	-	187.1
	EBIT	5.6	-	2.1	(1.0)	6.8
	EBIT Margin %	4.0	-	4.4	-	3.6
Philippines	Revenue	31.9	-	2.0	-	33.9
	EBIT	(4.4)	-	0.7	-	(3.8)
	EBIT Margin %	(13.9)	-	32.8	-	(11.1)

- **USA:** LCS work in progress write-down, support revenue grew over 100% year on year
- **Australia:** Transition from CCPB 1-8 & RNO to new projects with zero or low profit take up
- **Philippines:** Low throughput in FY2016

¹ unallocated overhead targeting growth

Cash and debt

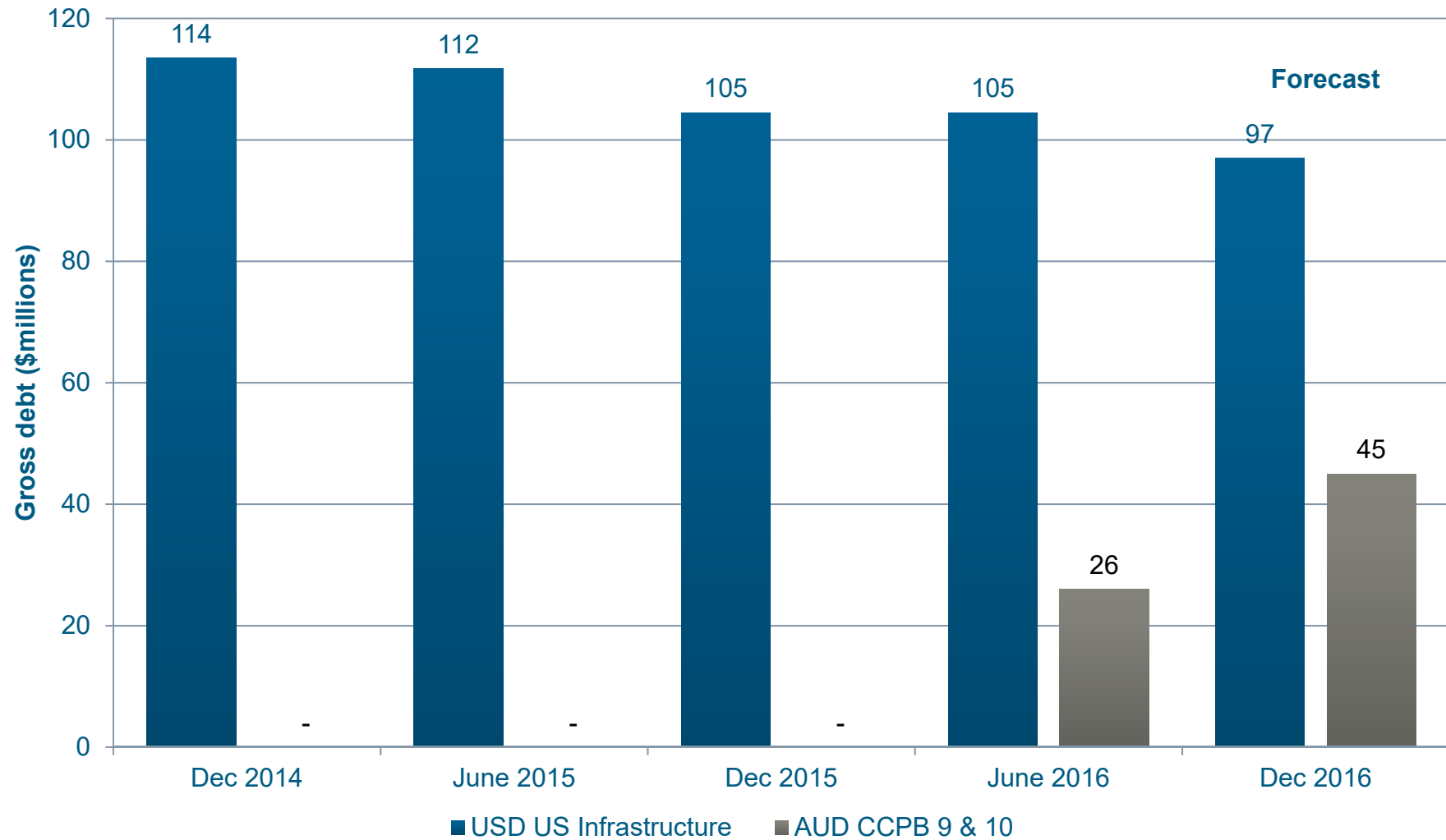


Cash flow	FY2016 (A\$m)	FY2015 (A\$m)	Change
Operating	102.1	110.4	(8.4)
Investing	(25.0)	(21.8)	(3.2)
Financing	(1.2)	(24.1)	22.9
Net increase	75.9	64.5	11.4

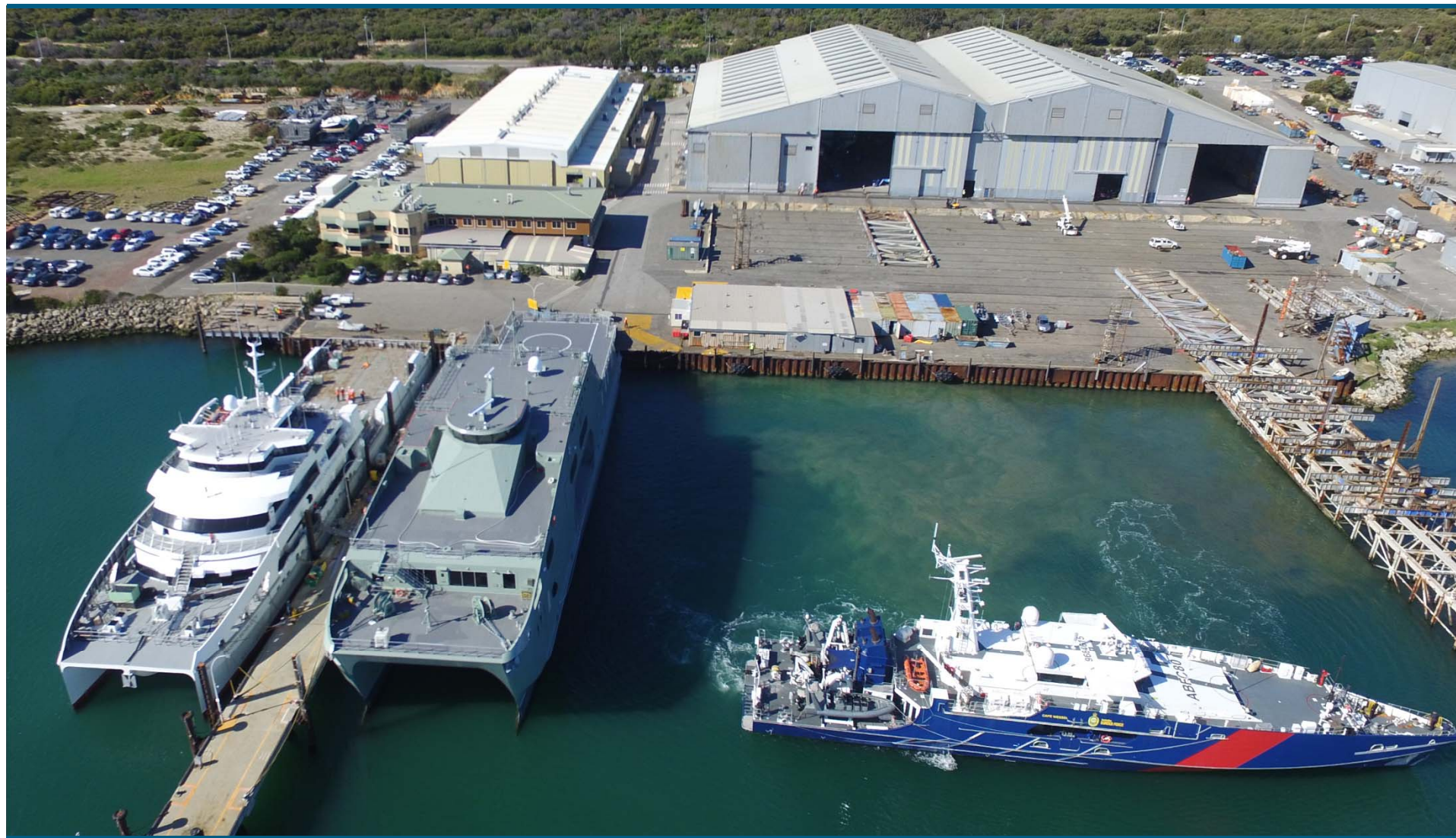
Cash (Debt)	June 2016	June 2015	June 2014
Net cash (debt) (\$m)	51.7	(4.2)	(71.5)
Leverage ratio	N/A	0.04	0.90

- Strong Operating cash flow – driven by USA and Australia
- Sustaining capital of ~ \$14 million plus capitalisation of \$18 million of CCPB 9 & 10 under financing accounting
- Financing includes:
 - ~ \$(16) million of dividends paid
 - ~ \$(11) million of US infrastructure debt reduction
 - ~ \$23 million CCPB 9 & 10 finance drawn
- Strong Net Cash
 - Includes CCPB 9 & 10 finance with more to be drawn in FY2017

Discipline in long-term debt reduction



Operations update



Overview – shipbuilding programs



- Order book of \$3.4 billion at 30 June 2016 secures revenue through CY2021, including:
 - **11 Littoral Combat Ships for US Navy**
11 funded, with 2 delivered
 - **10 Expeditionary Fast Transports (formerly Joint High Speed Vessel) for US Navy**
Fully funded, with 7 delivered, EPF 11 & 12 have been appropriated but not contracted
 - **10 Cape Class Patrol Boats for Australian Government**
8 vessels delivered, plus through-life support
2 vessels in construction for lease to Royal Australian Navy (RAN)
 - **2 High Speed Support Vessels for Royal Navy of Oman**
Fully funded, one delivered
 - **Commercial vessels**
2 oil & gas crew transfer vessels nearing completion
5 passenger ferries on order (1 Australia, 3 Philippines and 1 China)

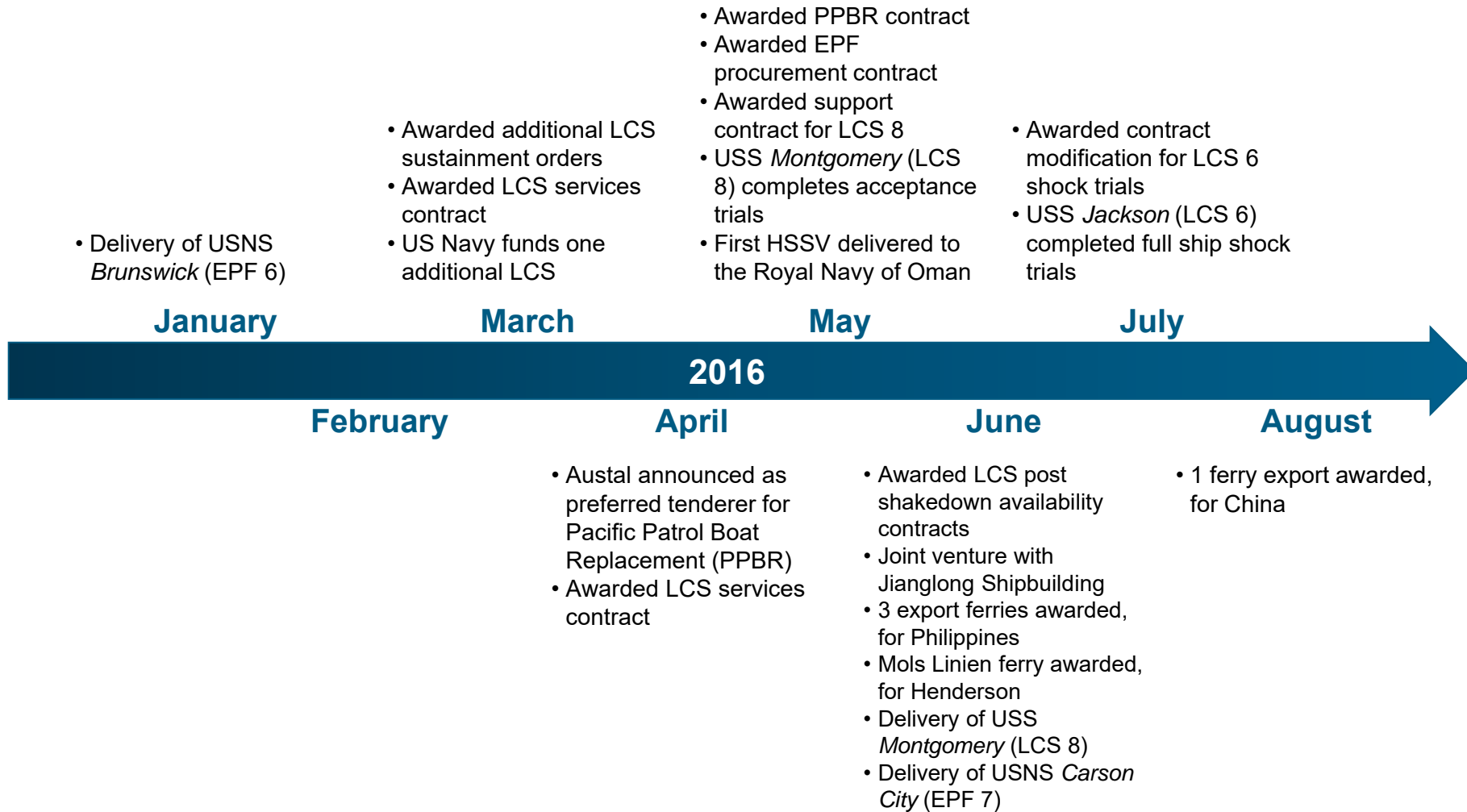
LCS test programs largely complete



- Naval vessel rules modifications incorporated
- Physical shock trials complete. Analysis by US Navy will continue.
- Modification requirement has dropped dramatically
- Financial impacts understood
- Expect residual risks reducing



Progress across the business



US Navy – Littoral Combat Ship



- 11 ship contract awarded as prime contractor, worth approximately US\$4 billion
 - LCS 6 & 8 delivered
 - LCS 10, 12 & 14 preparing for sea trials
 - LCS 16, 18 & 20 under construction
 - LCS 26 funded
- Additional 2 LCS constructed and previously delivered by Austal for GD (LCS 2 and LCS 4)
- Potential additional ship(s) to be ordered in FY2017
- US Navy supportive of 52 ship program
 - Later ships (LCS 33 – 52) will be “upgunned” as fast frigate, Austal is undertaking design work to modify LCS



US Navy – Expeditionary Fast Transport



- 10 ship award to Austal valued at US\$1.6 billion (fully funded), securing work through to CY2019
- Program progressing well – matured into a phase of efficient production and predictable delivery
 - EPF 6 & 7 – delivered in FY2016
 - EPF 8 – due for launch later CY2016
 - EPF 9 & 10 – under construction
 - EPF 11 & 12 – long lead materials ordered (expecting full ship contracts in FY2017)
- US Navy interested in growing size and role of EPF fleet (strong potential for program expansion)



Austal remains strongly positioned in US



Austal-built vessels have continued to be funded and programs are maturing

US Foreign Policy remains focused on Asia-Pacific defence strategy

Winning service contracts on LCS and investing in support business to enhance prospects for additional work

US Navy and Congress commitment appear to be focused on 'upgunning' final 20 LCS as fast frigates and meet 52 vessel target – rate of acquisition to be decided by Congress

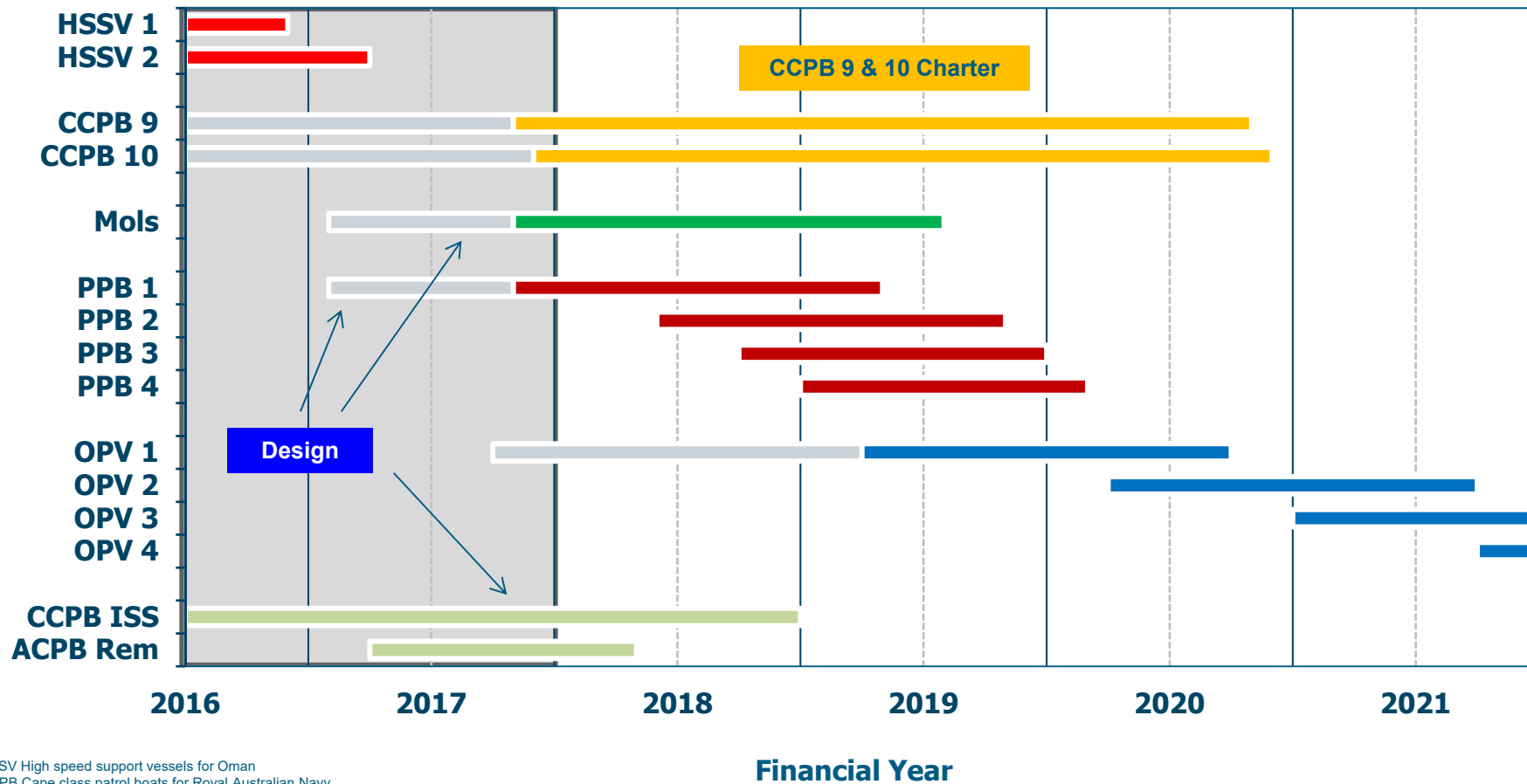
FY2017
Appropriation of 3 additional LCS by Congress is likely
EPF 11 & 12 production contract expected

LCS variants attractive to international market through US Foreign Military Sales (longer term)

Australia & Export Defence Contracts



Transition period in Australia

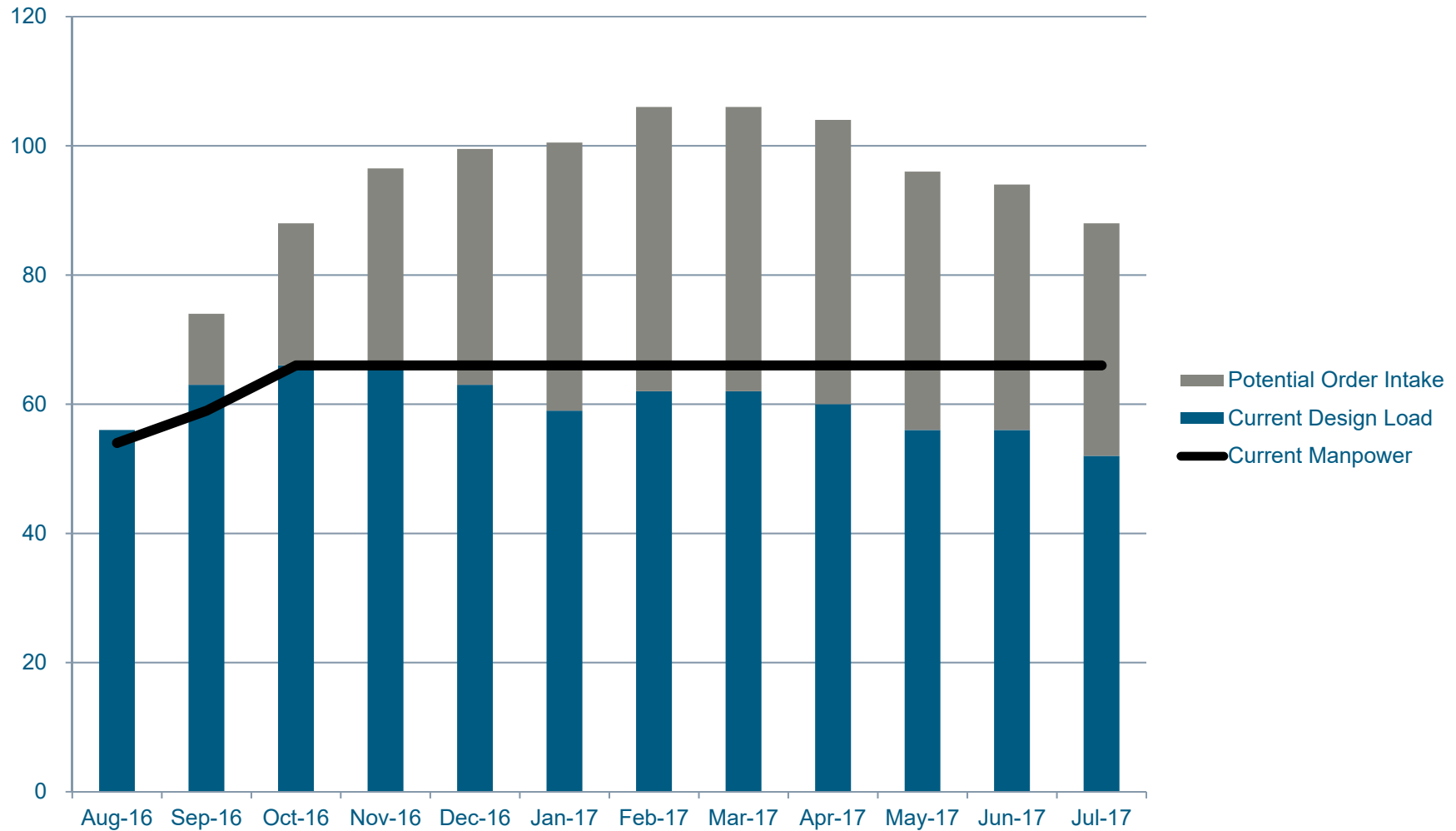


HSSV High speed support vessels for Oman
 CCPB Cape class patrol boats for Royal Australian Navy
 Mols 109m Passenger and Vehicle ferry for Mols Linen in Denmark
 PPB Pacific Patrol Boats for Commonwealth of Australia
 OPV Offshore Patrol Vessels for Royal Australian Navy (prospective)
 CCPB ISS. Support contract for Cape Class vessels for Australian Border Force
 ACPB Rem Armidale remediation. Support for Royal Australian Navy.

Design work load Australia and Philippines



Full Time Equivalent Design personnel



Once in a generation opportunity – “Continuous Shipbuilding” in Australia



Submarine

Designer



Build location

Adelaide



Future Frigate



Adelaide



Offshore
Patrol Vessel



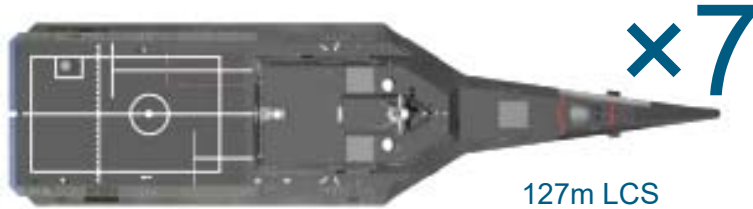
Adelaide initial 2 vessels
Henderson next 10 vessels

Austal today is by far Australia's largest shipbuilder



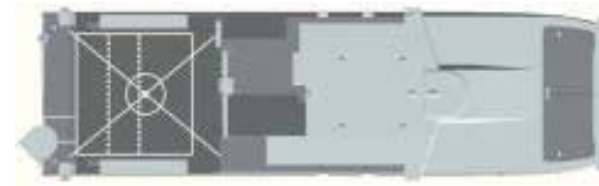
Austal vessels currently under construction in Alabama

all vessels to approximate scale



x7

127m LCS



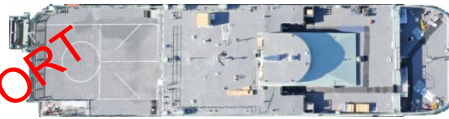
x3

102m EPF



Austal vessels currently under construction in Henderson

EXPORT
EXPORT



x1

72m HSSV



x1

70m Oil & Gas

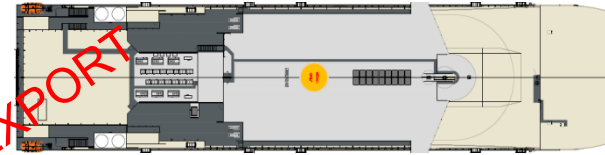
+ 1 more in Philippines



x2

58m Cape

Upcoming Australian vessels



x1

109m Mols



x19

39m PPB-R

ASC Air Warfare Destroyer. Size comparison



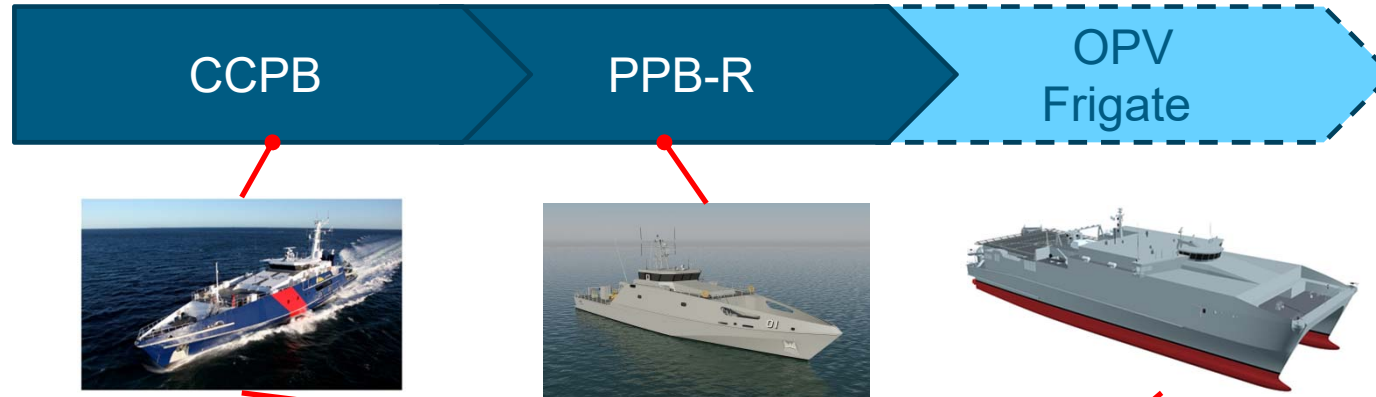
x3

147m AWD

Austal is Australia's leading shipbuilding exporter



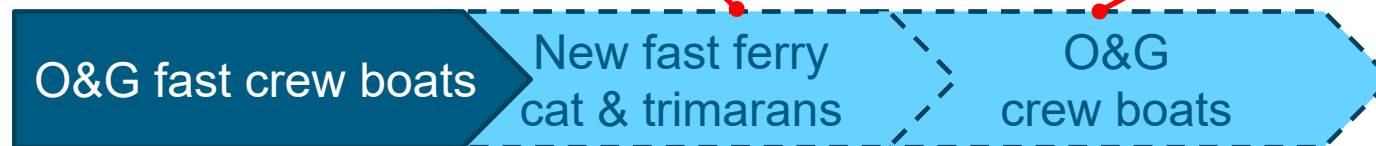
Australian Defence



Defence exports



Commercial market



High Speed Support Vessels



- US\$125 million contract for the design, construction and integrated logistics support of two 72 metre High Speed Support Vessels for the Royal Navy of Oman
- Construction is nearing completion at the Henderson shipyard
 - HSSV 1 delivered and undergoing hot weather trials in Oman
 - HSSV 2 expected to deliver late CY2016
- Deployed with a similar mission to the EPF program
- Demonstrated strategy of leveraging Austal's intellectual property and technology to new defence markets
- Austal currently bidding additional HSSV style vessels to the Middle East



Commercial Exports



- Renewed confidence and growing opportunity in the international commercial ferry market
- Approximately \$130million in new contracts secured during CY2016:
 - 109 m vehicle passenger ferry for Mols Linien to be built in Henderson
 - 2 contracts for three commercial passenger ferries to be constructed in the Philippines
- Oil and Gas crew boats market promising with four vessels delivered (2 still in production) and market expansion likely
- Additional tenders underway



Systems and Support



- Austal investing extensively in sustainment capability with new people, facilities and software
- USA:
 - LCS support has commenced
 - EPF may transition into OEM support
- Australia:
 - CCPB sustainment for Border Force
 - PPB sustainment for Navy
 - Armidale Remediation won
 - Other contracts bid
- Footprint spanning Darwin, Henderson, Oman, Philippines and Singapore well positioned to support increasing regional forward deployment of LCS and EPF
- Turnover across group up 55% year on year



Strategy and Outlook



Sustain the business	Strengthen the business	Diversify the business	Scale the business
<ul style="list-style-type: none">• Deliver our current programs to the high quality our customers expect from Austal• Maintain a strong pipeline of future work for Austal's existing businesses based upon our industry leading Defence and Commercial product portfolio	<ul style="list-style-type: none">• Improve margins through procurement and production efficiencies without impacting safety and quality• Invest in IT, upskilling staff, and selected infrastructure to continue to differentiate Austal's shipbuilding model from competitors	<ul style="list-style-type: none">• Grow annuity-style revenue by expanding our global support offering for Austal-built vessels• Expand into selected new market segments where Austal quality and performance is a differentiator, e.g., high speed Oil & Gas crew transfer vessels	<ul style="list-style-type: none">• Position Austal for a leading role in upcoming major Navy programs in Australia• Pursue targeted organic and acquisitive growth opportunities and partnerships

Growth strategy to be supported by maturing vessel programs, significant order book, strong financial position and effective risk management

Pipeline



1 United States Defence



- Strong potential to continue extending the LCS and EPF programs

2 Middle East Defence



- Exports from Austal's portfolio of aluminium high performance naval vessels including HSSV and CCPB variants

3 Australia Defence



- Steel vessels for the RAN's fleet renewal programs; OPV, Frigate & PPB including Austal build of 3rd party designs

4 Global Commercial



- Many opportunities in a resurgent global high speed ferry market
- Innovative new offering in the Oil & Gas crew transfer market

LCS program to stabilise and mature

Good opportunity for award of additional LCS and EPF in addition to existing block buy contracts

Position Austal for Future Frigate and OPV programs

Export opportunities from Australian and Philippines shipyards demonstrated and growing

Opportunities to continue to grow naval support business in Australia & USA

Maintain a strong cash position to support growth opportunities, underpin dividends and further reduce US infrastructure debt

Disclaimer



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