



**COMPANY ANNOUNCEMENT
25 JULY 2023**

EARNINGS FORECAST UPDATE

Austal Limited (**Austal**) (ASX:ASB) provides the following update in relation to its US Towing, Salvage and Rescue Ship (T-ATS) program and an associated substantial revision in earnings guidance for FY2023.

As indicated in the Company's FY2022 Annual Report and in an ASX announcement on 17 January 2023, the program has encountered changes in specification and general cost inflation pressures.

In addition, the efficiency assumptions for the newly commissioned steel manufacturing line, such as labour hours and consequentially, recovery of overheads, did not meet forecasts and have been subsequently revised. So, although these efficiency issues are expected to increasingly improve as Austal progresses construction of the T-ATS vessels, which is Austal USA's first steel shipbuilding project, they are slowing progress on the first vessels in production.

The exercise of the option to construct the fifth and final vessel in the contract has also added in the associated cost issues to the onerous contract.

As noted previously, Austal USA has submitted Requests for Equitable Adjustment (REAs) to seek recoveries for some of the additional costs incurred in the T-ATS project, but the precise timing and success of those claims is uncertain. Any successful REA would benefit Austal's FY2024 results.

Austal is submitting further REAs, for some, but not all, of the additional costs and vessel, and the outcome of those REAs is similarly uncertain.

As part of the financial year-end process, the Company has conducted a further review of the forecasts for the T-ATS project, applying the same forecasting methodology previously used, which requires the Company to bring all project losses forward and encompass the entire program, including the updates listed above, in FY2023 reporting.

Based on the outcomes of that review, EBIT guidance for FY2023 is reduced from earnings of approximately AU\$58 million to an expected range between zero profit to a potential loss of AU\$10 million. Despite the significantly reduced EBIT guidance, Austal retained a healthy cash at bank position of approximately A\$179 million as at 30 June 2023 (31 December 2022: A\$184.9 million).

Austal Chief Executive Officer Paddy Gregg said:

“This is clearly a disappointing financial result for Austal given the success that we have had recently winning new projects to expand our US operations.

“The underlying issue is that the T-ATS award was received just prior to a period of unprecedented hyperinflation; some inaccurate assumptions were made regarding the efficiency of the new steel panel line in its first project’ and the project has also been subject to specification changes from the original award.

“It is clear that we need to make changes to some reporting structures and processes so that Austal USA can identify and rectify these sorts of issues in a more timely manner.

“It is important to note that the T-ATS contract is different to our more recently awarded programs, which have Economic Price Adjustment clauses that provide important cost escalation and variation protection. “Also, the T-ATS negotiations were conducted prior to the completion of our steel panel line, which limited operational visibility compared to subsequent contract awards.

“We will continue to proactively apply the lessons we’ve learn so far to enhance operational efficiencies as the T-ATS project progresses, and we are optimistic the REAs will mitigate some of the provisioned losses on the project.”

Austal is currently in a trading halt, having requested that trading halt pending an announcement in relation to an update to earnings arising from the T-ATS project. This announcement is the announcement referred to in the trading halt request, hence Austal now requests an end to the trading halt.

This announcement has been approved and authorised for release by the Board of Austal Limited.

-Ends

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About Austal

Austal is Australia's global shipbuilder and defence prime contractor designing, constructing and sustaining some of the world's most advanced commercial and defence vessels. For more than 30 years Austal has contracted more than 300 vessels for over 100 commercial and defence operators in 54 countries, worldwide. Austal is Australia's first ASX-listed shipbuilder and the world's largest aluminium shipbuilder. Austal has industry-leading shipyards in Australia, the United States of America, Philippines and Vietnam with service centres worldwide, including the Middle East. Austal delivers iconic monohull, catamaran and trimaran commercial vessel platforms – including the world's largest trimaran ferry and multiple defence programs such as the Littoral Combat Ship (LCS) and Expeditionary Fast Transport (EPF) for the United States Navy. Austal is the only foreign-owned prime contractor designing, constructing and sustaining ships for the US Navy.