AUSTAL INCREASES NET PROFIT AND ORDER BOOK

Summary:

- Revenue of $653.0 million (FY2017 H1: $649.2 million).
- EBIT of $29.2 million (FY2017 H1: $18.1 million) Up 62%.
- Net Profit After Tax (NPAT) of $25.6 million (FY2017 H1: $9.3 million) Up 174%.
- Earnings driven by ongoing strong performance on shipbuilding programs for the US Navy, with a 7.6% shipbuilding margin (guidance 6–8%), up from 6.6% in FY2017 H1.
- $3.4 billion order book across thirteen vessel programs in the USA, Australia, Philippines, and China.
- Awarded second LCS for CY2017 in October 2017, with both awarded under a competitive tender process off a reset cost base.
- Largest commercial ferries order book for a decade will underpin significant growth in the Philippines, with Austal awarded a further ~$380 million in contracts for eight commercial ferries during FY2018 H1.
- FY2018 group revenue guidance of $1.3–$1.4 billion and US shipbuilding margin of 6–8% maintained.
- Net debt\(^1\) of $(10.8) million (30 June 2017: $19.3 million net cash).
- Unfranked interim dividend of 2.0 cents per share (FY2017 H1: 2.0 cents per share, fully franked), supported by strong cash position ($112.0 million at 31 December 2017).

Austral CEO, David Singleton said “The Littoral Combat Ship (LCS) program in the United States has entered a reliable and consistent period of production with our 6th vessel now delivered and a further 9 vessels in the pipeline.”

\(^1\) Excludes residual buyback guarantee for the Cape Class Patrol Boat 9 & 10 lease program with National Australia Bank and the Royal Australian Navy which is recognised as debt in the balance sheet.
“Austal won its 15th LCS trimaran (LCS 30) in October 2017 following LCS 28 which was awarded in June 2017 adding over $1.5 billion to the order book. Both vessels were priced at a level that reflects our now well understood cost base and will therefore be delivered at a reasonable margin for a vessel of this complexity.”

“Outside of the USA, our success in winning more than $380 million in commercial ferry contracts in the half, capped off a strong calendar year in this market particularly for the larger, more profitable vessels. We are considering a range of options to expand our construction footprint in Asia as a result.

In addition to the strong order book, Austal is benefiting from improved construction efficiency and procurement gains, that have been hard won over the last two years, across all of its operations.

The US business is distinguishing itself through its continued focus on operational efficiencies, which have delivered a further 9% reduction in production hours from the 6th LCS vessel to the 7th. This comes on top of significant improvements already delivered on previous ships.

Similarly, in Australia, Austal has made a 20 per cent productivity gain in production hours in the past two years which is an outstanding achievement for the ship building team. A major focus on procurement savings through better design for manufacture will remain a significant focus in the future given that up to 90% of the cost of our ships derives from our supply chain.”

Mr Singleton said, “Austal is a technology company that builds ships. We continue to be world leading in several areas with our ship designs, not just world class. For instance, Austal is the only company in the world designing and building large all aluminium trimaran hulls with this sector now representing over half of our large commercial and military vessel order book. The strong order book will drive financial performance as it matures into production and will sustain our margin growth over the next few years.”

The Federal Government indicated in late November 2017 that Austal will be included in the construction of 10 Offshore Patrol Vessels designated to be built in Henderson, Western Australia, stating that prime contractor, Lürssen, would “use the capabilities of Austal and Civmec to build 10 OPV in Henderson, subject to commercial negotiations”.

The timeline and nature of Austal’s role in the construction of the 10 vessels to be built at Henderson from 2020 is unclear at this time because negotiations have only recently commenced and we will update the market when the outcome is clear.
SEGMENT RESULTS

USA

Austal’s largest business unit, the US defence shipyard, sustained its earnings turnaround that started in FY2017 with the shipbuilding margin rising from 6.6% (FY2017 H1) to 7.6% (FY2018 H1) in line with FY2018 guidance which remains at 6-8 per cent.

Austal’s USA segment reported revenue of $557.7 million (FY2017 H1: $594.3 million), with a segment EBIT of $36.2 million (FY2017 H1: $41.1 million).

Revenue and earnings were lower than the prior corresponding period, principally due to:

1. Lower production activity given a moderation in the order intake over the past three years.
2. A stronger average USD / AUD exchange rate, negatively impacting the translation of USD revenue and earnings into AUD.
3. Lower first half Service and Support earnings due to the timing of contract award fees.

Austal was awarded a contract to build LCS 30 during the half, the 15th LCS to be constructed by the Company. Austal was awarded two of the three LCS vessels contracted in CY2017 under a competitive tender process against the Freedom-class variant, built by Lockheed Martin.

Austal USA now has 12 ships on order across the two major defence vessel contracts for the US Navy, the ~US$5.2 billion Littoral Combat Ship (LCS) program and the ~US$2.2 billion Expeditionary Fast Transport (EPF) program.

Australia

Austal’s Australia segment reported revenue of $80.8 million (FY2017 H1: $47.4 million), with a breakeven segment EBIT (FY2017 H1: $1.7 million EBIT).

Throughput at Austal’s Henderson shipyard has increased significantly over the past 18 months, delivering revenue growth based on the growing order book of commercial and defence programs, including:

- construction work on the $305 million, 19-ship Pacific Patrol Boat Replacement (PPBR) program and the ~$90 million, 109-metre Mols vehicle passenger ferry.
- design work on the ~$108 million, 109 metre Fjord Line ferry (awarded in August 2017) and the ~$190 million contract for 2 Fred Olsen trimaran ferries (awarded in October 2017).
• sustainment work on the Cape Class Patrol Boat support contract and Armidale Class Patrol Boat remediation contract.
• Cape Class Patrol Boats 9 & 10, constructed for NAB which are both under charter to the Royal Australian Navy post delivery in late FY2017.

The breakeven result in Australia reflected zero profit recognition for Pacific Patrol Boat 1 until it is delivered in FY2019, no contribution from the CCPB Sustainment contract which was declared to be onerous in FY2017 and inadequate shipbuilding throughput.

Austal was disappointed that it did not win the Royal Australian Navy’s Offshore Patrol Vessel program outright but the Government’s indication that it wishes Austal to be involved in the program has the potential to provide a backbone of work for the Henderson shipyard over the next 15-20 years. This outcome would ensure that the export of commercial ships from Henderson can continue thereby providing that hundreds of jobs in Western Australia can be maintained in addition to those employed directly on the OPV program. When awarding the contract in November 2017, the Federal Government indicated that the prime contractor Lürssen would include Austal in building the 10 OPV in Henderson, subject to satisfactory commercial negotiations.

Asia (Philippines + China)

The Philippines segment reported revenue of $22.6 million (FY2017 H1: $12.7 million), with a segment EBIT loss of $(1.1) million (FY2017 H1: $(2.8) million EBIT loss).

Austal’s Philippines shipyard increased throughput during FY2018 H1, progressing towards a level of throughput that will enable consistent delivery of earnings when larger commercial ferry contracts transition from the design to construction phase. Revenue is expected to rise significantly in FY2019.

Austal’s footprint in Asia is critical in maintaining its leading position in the fast ferry market. Austal is closely analysing the best options for its planned US$30 million investment to expand construction capacity in Asia given the significant contracts awarded to Austal and ongoing opportunities for additional commercial ferries. In particular, the Company is identifying options that would enable it to double its construction capability from one large (100m+) ferry to the parallel construction of two large ferries at a time in Asia.

The Company has operations in China through its Joint Venture in Aulong Shipbuilding, which was awarded a further $20 million of contracts in January of 2018 (after the end of the half), to design and build four 42-metre high speed catamarans. The order book for China now stands at 6 vessels for 3 customers.
CASH AND CAPITAL MANAGEMENT

Austral 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 and the net debt position has continued to be impacted by the Cape Class Patrol Boat 9 & 10 leasing program, where the accounting treatment of the residual value guarantee increased net debt by $(61.2) million.

The net debt position was $(10.8) million at 31 December 2017 (net cash of $19.3 million at 30 June 2017) excluding this impact. Net debt including CCPB 9 & 10 was $(72.0) million at 31 December 2017 (net debt of $(45.9) million at 30 June 2017).

Importantly, Austral has maintained a strong cash balance of $112.0 million (30 June 2017: $150.4 million), supporting the ongoing payment of dividends.

INTERIM DIVIDEND

Austral declared an interim dividend of 2 cents per share. The dividend will be unfranked, in line with guidance provided with the FY2017 results, given the predominance of US earnings (which do not generate franking credits) and the availability 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: Wednesday, 14 March 2018.
- Record date: Thursday, 15 March 2018.
- Payment date: Friday, 6 April 2018.

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 has maintained its group revenue guidance of $1.3–1.4 billion for FY2018 as well as its US shipbuilding EBIT margin of 6–8 per cent.

Austal Chief Executive Officer David Singleton said Austal’s strong order book and maturity of its headline vessel construction programs (LCS, EPF, and large high speed ferries) provided Austal with continuing operational and financial confidence over the medium term.

“In the US, a significant increase in defence expenditure has been tabled in Congress. This is likely to drive an increase in appropriation of vessels as the USA seeks to increase the size of the Navy to 355 ships, however the makeup and timing of that requirement is unclear.”

“We are encouraged that the US Navy has publicly praised the deployment, vessel utility and shipyard performance of Austal in recent months.”

“Austal is preparing for the US Navy’s transition from the small surface combatant LCS to the FFG(X) frigate program, which is expected to commence in 2020. Austal was awarded a US$15 million conceptual design contract for the FFG(X) in February 2018.”

“Our earnings in Australia will improve as the Pacific Patrol Boat program reaches full scale production with regular profit recognition after the delivery of PPB 1, scheduled for October 2018, and longer term upside potential through our involvement in the OPV program when construction of OPV 3 commences in FY2021.”

Mr Singleton added that the pipeline for additional commercial ferries remains strong, with additional significant contracts likely in CY2018.

“We are analysing a number of options to expand our Asian operations so that we have the operational footprint, cost structure and management capacity to take advantage of the improved demand for large commercial ferries. We have earmarked a US$30 million capital program over the next 2 years to expand our Asian operations, although in what form that takes is yet to be decided,” he said.

-Ends-
Conference Call

Austal Chief Executive Officer David Singleton and Chief Financial Officer Greg Jason will hold an analyst and investor conference call today to discuss the Company’s FY2018 H1 results at the time listed below.

Conference call details:

Date: Tuesday, 27 February 2018
Time: 7:30am Perth time (AWST) / 10:30am Sydney time (AEDT) – participants are requested to dial in 5 minutes prior to the start time
Conference ID: 2464109

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.

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Archived Call: An archived copy of the call will be available shortly after the conclusion of the call via http://www.openbriefing.com/OB/2830.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 April 2018 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 April 2018 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 Monday 19 March to Friday 23 March (inclusive of those dates). No discount shall apply to the allocation price. Shares will be issued on Friday, 20 April 2018 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 Friday, 16 March 2018. 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: Friday, 16 March 2018.
- 5 trading day pricing period for DRP: Monday, 19 March 2018 – Friday, 23 March 2018.
- Date for issue of shares under DRP: Friday, 20 April 2018.

About Austal

Austal is an Australian shipbuilder and global defence prime contractor which designs constructs and sustains some of the world’s most advanced commercial and defence vessels.

Austal successfully balances commercial and defence projects and celebrates 30 years of success in 2018. Austal has designed, constructed and delivered more than 300 commercial and defence vessels for more than 100 operators in 54 countries worldwide.

Austal is Australia’s largest defence exporter and the only ASX-listed shipbuilder. Austal has industry leading shipyards in Australia, the United States of America and Philippines and service centres worldwide.

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 has grown to become the world’s largest aluminium shipbuilder.

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