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
2017 Outlook

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
FY2017 Outlook

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
Earnings in line with guidance

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

- **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

<table>
<thead>
<tr>
<th>Region</th>
<th>Revenue</th>
<th>Systems</th>
<th>Support</th>
<th>Other¹</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>USA</strong></td>
<td>821.4</td>
<td>213.9</td>
<td>97.8</td>
<td>-</td>
<td>1,133.0</td>
</tr>
<tr>
<td></td>
<td>(90.8)</td>
<td>2.2</td>
<td>6.0</td>
<td>(8.0)</td>
<td>(90.5)</td>
</tr>
<tr>
<td></td>
<td>(11.1)</td>
<td>1.0</td>
<td>6.2</td>
<td>-</td>
<td>(8.0)</td>
</tr>
<tr>
<td><strong>Australia</strong></td>
<td>139.0</td>
<td>-</td>
<td>48.0</td>
<td>-</td>
<td>187.1</td>
</tr>
<tr>
<td></td>
<td>5.6</td>
<td>-</td>
<td>2.1</td>
<td>(1.0)</td>
<td>6.8</td>
</tr>
<tr>
<td></td>
<td>4.0</td>
<td>-</td>
<td>4.4</td>
<td>-</td>
<td>3.6</td>
</tr>
<tr>
<td><strong>Philippines</strong></td>
<td>31.9</td>
<td>-</td>
<td>2.0</td>
<td>-</td>
<td>33.9</td>
</tr>
<tr>
<td></td>
<td>(4.4)</td>
<td>-</td>
<td>0.7</td>
<td>-</td>
<td>(3.8)</td>
</tr>
<tr>
<td></td>
<td>(13.9)</td>
<td>-</td>
<td>32.8</td>
<td>-</td>
<td>(11.1)</td>
</tr>
</tbody>
</table>

- **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

<table>
<thead>
<tr>
<th>Cash flow</th>
<th>FY2016 (A$m)</th>
<th>FY2015 (A$m)</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating</td>
<td>102.1</td>
<td>110.4</td>
<td>(8.4)</td>
</tr>
<tr>
<td>Investing</td>
<td>(25.0)</td>
<td>(21.8)</td>
<td>(3.2)</td>
</tr>
<tr>
<td>Financing</td>
<td>(1.2)</td>
<td>(24.1)</td>
<td>22.9</td>
</tr>
<tr>
<td>Net increase</td>
<td>75.9</td>
<td>64.5</td>
<td>11.4</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash (Debt)</th>
<th>June 2016</th>
<th>June 2015</th>
<th>June 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net cash (debt) ($m)</td>
<td>51.7</td>
<td>(4.2)</td>
<td>(71.5)</td>
</tr>
<tr>
<td>Leverage ratio</td>
<td>N/A</td>
<td>0.04</td>
<td>0.90</td>
</tr>
</tbody>
</table>

- 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

<table>
<thead>
<tr>
<th></th>
<th>USD US Infrastructure</th>
<th>AUD CCPB 9 &amp; 10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec 2014</td>
<td>114</td>
<td></td>
</tr>
<tr>
<td>June 2015</td>
<td>112</td>
<td></td>
</tr>
<tr>
<td>Dec 2015</td>
<td>105</td>
<td></td>
</tr>
<tr>
<td>June 2016</td>
<td>105</td>
<td>26</td>
</tr>
<tr>
<td>Dec 2016</td>
<td>97</td>
<td>45</td>
</tr>
</tbody>
</table>

Forecast
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

January
- Delivery of USNS Brunswick (EPF 6)

February
- Austal announced as preferred tenderer for Pacific Patrol Boat Replacement (PPBR)
- Awarded LCS services contract

March
- Awarded additional LCS sustainment orders
- Awarded LCS services contract
- US Navy funds one additional LCS

April
- Awarded PPBR contract
- Awarded EPF procurement contract
- Awarded support contract for LCS 8
- USS Montgomery (LCS 8) completes acceptance trials

May
- Awarded contract modification for LCS 6 shock trials
- USS Jackson (LCS 6) completed full ship shock trials

June
- Awarded EPF procurement contract
- Awarded support contract for LCS 8
- First HSSV delivered to the Royal Navy of Oman

July
- Awarded PPBR contract
- Awarded EPF procurement contract
- Awarded support contract for LCS 8
- USS Montgomery (LCS 8) completes acceptance trials

August
- 1 ferry export awarded, for China

SHIPS • SYSTEMS • SUPPORT
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).
Transition period in Australia

Financial Year

- HSSV 1
- HSSV 2
- CCPB 9
- CCPB 10
- Mols
- PPB 1
- PPB 2
- PPB 3
- PPB 4
- OPV 1
- OPV 2
- OPV 3
- OPV 4
- CCPB ISS
- ACPB Rem

HSSV High speed support vessels for Oman
CCPB Cape class patrol boats for Royal Australian Navy
Mols 109m Passenger and Vehicle ferry for Mols Linien 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
Design work load Australia and Philippines

Full Time Equivalent Design personnel

Potential Order Intake
Current Design Load
Current Manpower

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

<table>
<thead>
<tr>
<th>Designer</th>
<th>Build location</th>
</tr>
</thead>
<tbody>
<tr>
<td>DCNS</td>
<td>Adelaide</td>
</tr>
<tr>
<td>BAE Systems</td>
<td>Adelaide</td>
</tr>
<tr>
<td>Fincantieri</td>
<td>Adelaide</td>
</tr>
<tr>
<td>Damen</td>
<td>Adelaide initial 2 vessels</td>
</tr>
<tr>
<td>Fassmer</td>
<td>Henderson next 10 vessels</td>
</tr>
<tr>
<td>Lürssen</td>
<td></td>
</tr>
</tbody>
</table>

Designer

- DCNS
- BAE Systems
- Fincantieri
- Damen
- Fassmer
- Lürssen

Build location

- Adelaide
- Adelaide
- Adelaide
- Adelaide initial 2 vessels
- Henderson next 10 vessels
Austal today is by far Australia’s largest shipbuilder

Austal vessels currently under construction in Alabama
- 127m LCS ×7
- 102m EPF ×3

Austal vessels currently under construction in Henderson
- 72m HSSV ×1
- 70m Oil & Gas ×1
- 58m Cape ×2
- 109m Mols ×19
- 39m PPB-R

Upcoming Australian vessels
- + 1 more in Philippines

ASC Air Warfare Destroyer. Size comparison
- 147m AWD ×3
Austral is Australia’s leading shipbuilding exporter

Australian Defence
- CCPB
- PPB-R
- OPV Frigate

Defence exports
- Oman HSSV
- Export CCPB and other Patrol
- Additional HSSV

Commercial market
- O&G fast crew boats
- New fast ferry cat & trimarans
- O&G crew boats
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
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
**Strategy**

<table>
<thead>
<tr>
<th>Sustain the business</th>
<th>Strengthen the business</th>
<th>Diversify the business</th>
<th>Scale the business</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Deliver our current programs to the high quality our customers expect from Austal</td>
<td>• Improve margins through procurement and production efficiencies without impacting safety and quality</td>
<td>• Grow annuity-style revenue by expanding our global support offering for Austal-built vessels</td>
<td>• Position Austal for a leading role in upcoming major Navy programs in Australia</td>
</tr>
<tr>
<td>• Maintain a strong pipeline of future work for Austal’s existing businesses based upon our industry leading Defence and Commercial product portfolio</td>
<td>• Invest in IT, upskilling staff, and selected infrastructure to continue to differentiate Austal’s shipbuilding model from competitors</td>
<td>• Expand into selected new market segments where Austal quality and performance is a differentiator, e.g., high speed Oil &amp; Gas crew transfer vessels</td>
<td>• Pursue targeted organic and acquisitive growth opportunities and partnerships</td>
</tr>
</tbody>
</table>

**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
## Outlook

<table>
<thead>
<tr>
<th>LCS program to stabilise and mature</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good opportunity for award of additional LCS and EPF in addition to existing block buy contracts</td>
</tr>
<tr>
<td>Position Austal for Future Frigate and OPV programs</td>
</tr>
<tr>
<td>Export opportunities from Australian and Philippines shipyards demonstrated and growing</td>
</tr>
<tr>
<td>Opportunities to continue to grow naval support business in Australia &amp; USA</td>
</tr>
<tr>
<td>Maintain a strong cash position to support growth opportunities, underpin dividends and further reduce US infrastructure debt</td>
</tr>
</tbody>
</table>
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