Summary of results:

- Revenue of $1,122.9 million (FY2013: $899.5 million), EBIT of $55.6 million (FY2013: $38.1 million) and NPAT of $31.9 million (FY2013: $35.7 million)
- Underlying earnings – EBITDA of $89.1 million (FY2013: $67.0 million), EBIT of $65.3 million (FY2013: $42.5 million), and NPAT of $38.7 million (FY2013: $27.8 million), exceeding expectations
- Net debt reduced to $68.6 million (FY2013: $137.1 million)
- Order book grew to $2.8 billion, securing construction work through CY2018 with FY2015 revenue expected to be $1.2 billion
- Maturing multiple vessel programs across the business provide good visibility, with long-term consistent earnings and a strong cash outlook establish a platform for growth
- Sale of Hull 270 (stock vessel) completed subsequent to year end
- Interim dividend expected to be declared in H1 FY2015 given debt reduction and strong financial position

Austal Limited (Austal) (ASX:ASB) is pleased to announce a Net Profit After Tax (NPAT) of $31.9 million for the year ended 30 June 2014, driven by record revenue and continued margin improvement across the Group’s shipbuilding activities. Underlying NPAT was $38.7 million, a significant improvement on FY2013 ($27.8 million).

Austal recorded revenue of $1,122.9 million for the year, with contributions from across the Group, including the Littoral Combat Ship (LCS), Joint High Speed Vessel (JHSV), and Cape Class Patrol Boat (CCPB) contracts. Revenue was 24.6 per cent higher than FY2013 ($899.5 million) and exceeded market guidance.

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1 FY2014 underlying NPAT excludes write down of WIP ($9.4 million) and profit on sale of Henderson facility ($2.5 million).
2 FY2013 underlying NPAT excludes research and development tax benefit ($11 million) and loss on stock yacht ($3.1 million).
Importantly, Austal also continued to drive operating margin growth across the Group, with increased production efficiency as these vessel construction programs matured. Earnings Before Interest and Tax (EBIT) margin across the Group was 4.9 per cent (FY2013: 4.2 per cent). Underlying Group EBIT Margin was 5.8 per cent, after excluding the write down of inventory and profit on sale of surplus assets.

Austal’s Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) grew by 27 per cent to $79.3 million (FY2013 EBITDA: $62.6 million).

Underlying EBITDA was $89.1 million (FY2013 underlying EBITDA: $67.0 million), higher than market expectations. The FY2014 underlying EBITDA result removes two non-recurring items: a $3.6 million profit on the sale of Austal’s former satellite service base in Henderson in December 2013, and a $13.4 million write down on the carrying value of inventory.

Austal generated strong cash flow in the year, with operating cash flow and funds from the sale of the satellite base used to further reduce infrastructure-related debt, in line with Austal’s debt reduction strategy.

Austal Chief Executive Officer Andrew Bellamy said the Company’s performance in the year reflected Austal’s determination to drive operational improvement and margin growth as vessel programs matured across the group.

“We have worked hard over the years to drive operational improvement across our long-term defence contracts,” Mr Bellamy said.

“This included implementing operational efficiencies and management structures across the group that would support the productive delivery of those contracts.

“It is pleasing that we are now seeing the rewards of that process, with shipbuilding margins increasing across the group as the vessel programs mature, driving increased earnings on our record revenue.

“Importantly, those earnings have translated into strong cashflow, which we have used to reduce debt in line with our strategy of establishing a financial position that supports our operations and enables us to deliver ongoing returns to shareholders.”
Operational review

Revenue at Austal’s USA operations was $933.6 million (FY2013: $747.7 million), with segment EBIT of $61.7 million at an EBIT margin of 6.6 per cent (FY2013: $50.1 million, 6.7 per cent). The margin was diluted by a significant pass through of system integration activities to Austal’s sub-contractors. Shipbuilding EBIT margin was 8.3 per cent, reflecting the maturing of the LCS and JHSV programs.

At the end of FY2014, five LCS were at various phases of construction, under Austal’s 10-ship, US$3.5 billion contract, and one vessel was delivered to the US Navy during the year. Furthermore, three JHSV were under construction, under Austal’s 10-ship, US$1.6 billion contract, and one vessel was delivered to the US Navy during the year. Austal expects to continue to increase productive efficiency on these vessel programs as they mature further throughout FY2015, with shipbuilding margins progressively improving as a result.

Austal’s Australia segment recorded pronounced earnings growth, with the business generating revenue of $241.9 million (FY2013: $144.1 million) and EBIT of $16.7 million at an EBIT margin of 6.9 per cent (FY2013: $0.0 million, 0.0 per cent). The durable growth resulted from the significant maturing of the $330 million CCPB program throughout the year. The shipyard also benefited from integration of its supply chain with the Philippines shipyard and increased utilisation through consolidation of the former, nearby service facility into the main shipyard.

At the end of FY2014, all six remaining vessels were under construction under an eight-vessel contract. The second CCPB was delivered in May 2014, ahead of schedule, following delivery of the first CCPB in FY2013. Austal expects further earnings growth from Australia in FY2015, with the Cape Class moving into a steady state of production and delivery and progressing with two 72-metre High Speed Support Vessels (HSSV) for the Royal Navy of Oman, worth $124.9 million. Construction on the two HSSV will commence by the end of CY2014, with design work currently underway. Austal will also explore options to further integrate the supply chain between the Australia and Philippines operations.

Revenue at Austal’s Philippines shipyard was $33.8 million (FY2013: $40.0 million), with EBIT of $2.7 million at an EBIT margin of 8.0 per cent (FY2013: $5.0m, 12.6 per cent). During FY2014, Austal delivered three 27 metre wind farm support vessels and an 80 metre commercial ferry. However reduced throughput in H2 FY2014 impacted earnings and revenue. Austal continued to enhance its capability at the shipyard by further upskilling the workforce to improve productivity.
At the end of FY2014, construction on the 21 metre wind farm vessel was nearing completion, with delivery to take place in H1 FY2015 following some delays. Construction work on the two 45 metre high speed catamarans for the Abu Dhabi National Oil Company, worth $30 million, had commenced, with delivery expected in CY2015. Austal is also exploring opportunities for the Philippines shipyard to provide small components to other divisions across the Group.

The maturing of the vessel programs and increased efficiencies across the Group drove increased asset utilisation, with return on invested capital rising to 7.8 per cent in FY2014 (FY2013: 5.5 per cent).

Cash and capital management

Austal reduced its net debt by $68.5 million from $137.1 million at 30 June 2013 to $68.6 million at 30 June 2014. Debt reduction has been achieved through channelling strong operating cash flow into paying down debt and the liberation of cash through surplus asset sales. In FY2014, operating cash flow was $44.6 million (FY2013: $55.9 million cash outflow). The strong turnaround in Austal’s cash flow reflects the maturity of the Company’s vessel programs through efficiency and management improvements that have been implemented.

As at 30 June 2014, Austal’s leverage ratio (Net Debt:EBITDA) was 0.86 (30 June 2013: 2.19). Austal’s total debt was $155.5 million, down from $244.8 million at 30 June 2013.

Austal Chief Executive Officer Andrew Bellamy said: “We have remained focussed on reducing Austal’s debt position to an appropriate level that supports our operations.

“In just under two years, we have paid off $109.9 million in debt – a significant achievement that reflects our disciplined approach to capital management and ability to generate cash. “Subsequent to financial year end we have also sold the 102 metre trimaran stock vessel to Condor Ferries, which has liberated additional cash and significantly enhances our capital flexibility by further reducing infrastructure-related debt.”

As part of its disciplined approach to capital management Austal has continued to use cash to principally reduce infrastructure-related debt, which has greatly enhanced the Company’s financial position. This has been further strengthened in FY2015 through proceeds from the sale of the Hull 270 stock vessel. Given Austal’s financial position, combined with the Company’s outlook, visibility
of revenue, and proven ability to generate cash, the Board intends to resume dividends to shareholders by declaring an interim dividend for H1 FY2015.

Outlook

Austal anticipates further revenue growth and progressive margin improvement in FY2015, as the Company benefits from its long-term defence vessel programs maturing further and more diversified earnings from across the Group.

Austal expects to grow revenue to $1.2 billion in FY2015 (assuming an AUD-USD exchange rate of 0.93).

Apart from driving performance on its existing $2.8 billion order book – which secures revenue through CY2018 – Austal is targeting additional opportunities for variant-style defence vessel contracts in existing and new markets, such as Asia and the Middle East, as well as extending existing vessel programs and exploring options for commercial vessels.

Austal will also continue to actively support the US Navy’s LCS review process from the outside by developing a number of options to enhance the current vessel in line with the changing needs of the US Navy. Notwithstanding this review – which is assessing options to enhance the LCS vessel program over the long-term – funding for at least one of the final two LCS contracted to Austal is expected to be appropriated in Q3 FY2015.

Austal Chief Executive Officer Andrew Bellamy said: “With our long-term order book and vessel programs maturing, we are transitioning to a phase where we will deliver consistent earnings and cash rather than lumpy revenue.

“With the deployment of Austal-built defence vessels, we also have an enhanced ability to incrementally increase earnings through our global service offering.

“We are continuing to explore a number of prospects to grow our order book, with particular opportunities existing in the Middle East. Austal would build those vessels at our Henderson and Philippines shipyards.”

-Ends-
Conference call

Austal Limited Chief Executive Officer Andrew Bellamy and Chief Financial Officer Greg Jason will hold an analyst and investor conference call on 27 August 2014 to discuss the Company’s results for the full year ended 30 June 2014 at the time listed below.

Conference call details:
Date: 27 August 2014.
Time: 8:30am Perth time (AWST) / 10:30am Sydney time (AEST) – participants are requested to dial in 5-10 minutes prior to the start time.

Conference ID:
732151

Dial-in details:
Domestic participants can dial either of the numbers below to join the call. Participants will need to quote the conference ID provided above.

Toll free: 1800 558 698 or Toll: +61 2 9007 3187.

International toll
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/1478.aspx.

About Austal

Austal is a global defence prime contractor and a designer and manufacturer of defence and commercial ships. For more than 25 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 250 vessels have been delivered in that time.

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 Joint High Speed Vessel (JHSV) for the United States 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 Customs and Border Protection. 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, the Caribbean and the Middle East together with partner shipyards worldwide.

**For further information contact:**

Austal, Public Relations  
Tel: +61 8 9410 1111  
Fax: +61 8 9410 2564  
Email: pubrel@austal.com  
Website: www.austal.com