COMPANY ANNOUNCEMENT
27 FEBRUARY 2014

AUSTAL REPORTS STRONG GROWTH

Summary of results:

- NPAT of $9.5 million – 76% increase on prior corresponding period (H1 FY13: $5.4 million)
- Revenue of $507.6 million (H1 FY13: $389.4 million)
- EBITDA of $30.7 million (H1 FY13 : $24.0 million)
- EBIT of $18.7 million (H1 FY13: $12.6 million)
- Increased free cash flow used to pay down infrastructure-related debt
    - Net debt reduced by $32.8 million in H1 to $113.7 million at 31 December 2013
    - $37.8 million from operating activities, representing 123% of EBITDA
    - $17.1 million of proceeds from the sale of former service base applied to further reduced debt in January 2014
- EBIT margin growth at USA operations to 6.4% (H1 FY13: 5.5%), lifting Group EBIT margin to 3.7% (H1 FY13: 3.2%)
- Order book $2.4 billion, securing construction work through to 2018
- On track to meet guidance of $1 billion revenue (H1revenue ~50% of annual forecast)

Austal Limited (**Austal**) (ASX:ASB) is pleased to announce a Net Profit After Tax (NPAT) of $9.5 million for the six months ended 31 December 2013 as the Company delivered strong revenue growth and continued margin improvement across the Group. Reported NPAT was negatively impacted by the write down of work in progress (WIP) by $7.2 million and positively impacted by the sale of the Henderson service facility by $2.3 million

H1 FY14 revenue was 30.4 per cent higher than the prior corresponding period ("PCP") (six months ended 31 December 2012), driven by increased production activity on the Littoral Combat Ship and Joint High Speed Vessel programs for the US Navy and also the Cape Class Patrol Boat program for Australian Customs and Border Protection Service.

Operating margins in the US and Australian businesses increased due to higher production efficiency from implementing the lessons learnt in the design and construction of first-in-class vessels for all three programs. Earnings Before Interest and Tax (EBIT) margin in the US was 6.4 per cent (H1 FY13: 5.5 per cent) and the Australia EBIT margin was 4.1 per cent compared to a loss in H1 FY13.

Austal reported underlying Earnings Before Interest, Tax, Depreciation and Amortisation (underlying EBITDA) of $37.7 million (H1 FY13: $27.1 million) after removing two non-recurring items:

1. On 3 December 2013, Austal entered into an agreement to sell its former service base at Henderson for $21 million and recorded a $3.3 million profit on the sale of the surplus asset. Net proceeds from the sale were approximately $17.1 million.
2. On 6 January 2014, Austal concluded an Option to Purchase contract with a European ferry operator for the 102 metre stock vessel, which is expected to be completed in H2 FY14. Following a review of the value of all WIP it was resolved to write down the carrying value of WIP by $10.2 million.

Austal Chief Executive Officer Andrew Bellamy said the Company's ability to produce cash and grow margins from a record amount of work in progress demonstrated the benefits of the changes that had been implemented across the group.

"Thirteen vessels were under construction at our US and Australia shipyards in the half, with those ships bolstering the value of Austal's work in progress to a record amount," Mr Bellamy said.

"Through a combination of the lessons learnt from the first-in-class vessels for each of those ship programs, the operational efficiencies we have implemented, and the management structures and systems we have put in place, we have been able to deliver revenue growth and strong cash flow from this record amount.

Importantly, we utilised the cash generated to reduce our debt, further strengthening our balance sheet that will better position the Company to deliver ongoing returns to shareholders."

Operational review

Revenue at Austal USA grew 32.7 per cent from the PCP to $419.8 million, delivering segment EBIT of $26.9 million at an EBIT margin of 6.4 per cent (H1 FY14: $17.4 million, 5.5 per cent). Margins in the US grew through further improving operational efficiencies from lessons learnt in the construction of first-in-class vessels and a stabilisation of the workforce.

Four Littoral Combat Ships were under construction in the half, under a 10-ship, US$3.5 billion contract. Furthermore, three Joint High Speed Vessels were under construction in the half, under Austal's 10-ship, US$1.6 billion contract.

Australian operations reported revenue 3.6% higher than the PCP, and the business generated EBIT of $3.0 million at a margin of 4.1 per cent following a loss in H1 FY13. Austal benefited from its strategy to reposition the Henderson shipyard as a defence-focussed operation.

Austal's major project was a $330 million contract to design and construct eight Cape Class Patrol Boats. Six vessels were under construction in the half, with Austal improving its efficiencies across the program following delivery of the first-in-class Cape *St George* in April 2013. The shipyard also benefited from increased utilisation by combining the former service facility into the main shipyard.

Revenue grew 46 per cent over the PCP at Austal's **Philippines** shipyard to $18.5 million. Construction activity increased with the completion of contracts, primarily the 80-metre Aremiti ferry. Further investments in capability development and a delay in the delivery of the Aremiti ferry impacted margins, with the segment recording EBIT of $0.3 million (H1 FY13: $0.7 million).

Cash and capital management

Austal reduced its net debt by $32.8 million from $146.4 million at 30 June 2013 to $113.7 million at 31 December 2013. The debt reduction was primarily through channelling operating cash flow into paying down debt, supported by a strong conversion of earnings to cash. Operating cash flow for H1 FY14 was $37.8 million, a $58.7 million turnaround from a ($20.9) million operating cash outflow in H1 FY13. This turnaround was supported by efficiency improvements at Austal's shipyards and realising modest gains through cash management initiatives.

As at 31 December 2013, Austal's leverage ratio (Net Debt:EBITDA) was 1.49x (30 June 2013: 2.23x). Austal's total debt was $210.5 million, down from $244.8 million at 30 June 2013.

Austal Chief Executive Officer Andrew Bellamy said: "A core part of our strategy has been on reducing Austal's gearing and debt levels to allow the Company to deliver on the significant amount of work in progress and increase flexibility to win new contracts."

Austal declared a nil dividend for H1 FY14 (H1 FY13: nil) in line with its debt reduction strategy.

Outlook

Austal will seek to drive further margin growth across the business in H2 FY14 as the Company continues to deliver on its three major vessel contracts.

Funding for LCS 18 and LCS 20 – the seventh and eighth LCSs to be built by Austal under its 10 vessel contract – is expected to be appropriated by US Congress by the end of March 2014, in line with the contract and consistent with prior years.

Furthermore, the Company is continuing to target opportunities for variant-style defence vessel contracts in existing and new markets, such as Asia and the Middle East.

Austal Chief Executive Officer Andrew Bellamy said: "We expect to meet our forecast of $1 billion revenue for Austal this year, having reached around 50% in the first half.

Our focus is on building on the efficiency gains we have made in delivering on the LCS, JHSV and Cape vessels to improve margins further as the programs mature.

We will also continue to reduce debt and maintain a focus on prudent cash management to support the significant amount of work in progress.

Looking ahead, we are encouraged by the opportunities for building variant-style defence vessels, which would be designed and constructed at our Henderson shipyard.

We will also remain flexible and adaptive at our Philippines shipyard in response to sluggish demand for ferries, including targeting new markets and different types of commercial vessels."

-Ends-

Conference call details

Austal CEO Andrew Bellamy will host a conference call to discuss the H1 FY14 results, including a Q&A session, at 8:00am Perth time (AWST) / 11:00am Sydney time (AEST) today. Access details to the call are provided below:

Conference ID: 45860150

Dial-in details:

Domestic participants can dial either of the numbers below to join the call. Participants will need to quote the ID provided above.

Australian Toll: +61 2 8038 5221 or Toll free: 1800 123 296

International toll

International toll-free numbers are listed below. For countries not listed below, the Australian Toll number can be dialled.

Canada 1855 5616 766

China 4001 203 085

Hong Kong 800 908 865

India 1800 3010 6141

Japan 0120 985 190

New Zealand 0800 452 782

Singapore 800 616 2288

United Kingdom 0808 234 0757

United States 1855 293 1544

Archived Call: An archived copy of the call will be available shortly after the conclusion of the call via http://www.openbriefing.com/OB/1300.aspx

About Austal

Austal is a global defence prime contractor. The Company designs, constructs and maintains revolutionary platforms such as the Littoral Combat Ship (LCS) and the Joint High Speed Vessel (JHSV) for the United States Navy, as well as an extensive range of patrol and auxiliary vessels for defence forces and government agencies globally. Austal also designs, installs, integrates and maintains sophisticated communications, radar and command and control systems.

Austal benefits from its position as a world leader in the design, construction and support of customised, high performance aluminium vessels for the commercial high speed ferry market, an achievement gained over a period of more than 25 years.

Austal's primary facilities comprise a dedicated defence shipyard in Henderson, Western Australia; a dedicated defence shipyard in Mobile, Alabama; and a dedicated commercial shipyard in Balamban, Philippines. The Company also provides vessel support services from its facilities in Australia, the United States, Asia, the Caribbean, and the Middle East. Systems development, sales and support are coordinated from Austal's facility in Canberra, Australia.

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