



**COMPANY ANNOUNCEMENT
29 AUGUST 2016**

**AUSTAL FY2016 RESULT IN LINE WITH GUIDANCE,
FY2017 OUTLOOK REITERATED**

Summary:

- Revenue of \$1.34 billion (FY2015: \$1.41 billion)
- EBIT loss of \$(120.9) million (FY2015: \$85.3 million EBIT profit), in line with guidance
- Net loss after tax of \$(84.2) million (FY2015: \$53.2 million NPAT)
- FY2016 earnings impacted by costs of implementing design modifications across the LCS program to meet the US Naval Vessel Rules , as announced on 4 July 2016
- Net cash position of \$51.7 million (30 June 2015: \$(4.2) million net debt)
- Fully franked final dividend of 2.0 cents per share (FY2015 Final: 3.0 cents per share)
- Order book of \$3.4 billion, securing construction work through to CY2021
- Maintain FY2017 outlook of \$45 - 55 million EBIT and continued cash generation from operations

Austal Limited (Austal) (ASX:ASB) has reported its FY2016 financial results in line with guidance.

The primary driver of Austal's FY2016 loss was a change of estimate to complete construction of the Littoral Combat Ship program (LCS 6 – 26) in accordance with the US Naval Vessel Rules, as announced on 4 July 2016.

Austal Chief Executive Officer David Singleton said outlook for the US shipyard and the group remained positive despite the FY2016 financial adjustment on the LCS program.

"The impact of the one-off downward adjustment to the LCS program has had on our earnings this year was disappointing, but Austal still has a strong order book and is generating strong cash flows from its efficient vessel construction," Mr Singleton said.

“Austal’s US\$4 billion LCS program will be profitable across its remaining life because we now have a much clearer understanding of the design required and margins that will be generated from the remaining LCS vessels.”

“Our US\$1.6 billion Expeditionary Fast Transport program in the US has matured well, is delivering stable and predictable returns, and has good prospects for expansion.”

“Austal’s Australia operations are in a period of transition as the shipyard is gearing up to construct a number of export and domestic defence contracts as well as commercial ferries following the conclusion of the initial eight-vessel Cape Class program early in FY2016.”

“Importantly, Austal continued to generate strong operational cash flow in the year, which has supported a further reduction in debt, ongoing dividends to shareholders, and enabled the business to end the year in a strong net cash position.”

Segment results

USA

USA reported revenue of \$1,133.0 million (FY2015: \$1,119.7 million), with a segment EBIT loss of \$(90.5) million (FY2015: \$58.5 million EBIT profit). The FY2016 EBIT loss was recognised following the completion of a comprehensive review of Austal’s ~ US\$4 billion LCS block buy contract, which was announced on 4 July 2016.

The USA operations progressed 17 vessel construction projects during the year. Austal delivered four vessels to the US Navy in FY2016 – two Littoral Combat Ships (LCS 6 and 8) and two Expeditionary Fast Transport (EPF) vessels (EPF 6 and 7). The order book was replenished when an option to fund LCS 26 was exercised by the US Navy, representing Austal’s eleventh LCS as prime contractor (Austal constructs the Independence variant, being the even-numbered vessels) and Austal was also awarded contracts to procure long-lead items for an eleventh and twelfth Expeditionary Fast Transport (EPF) from the US Navy, providing confidence that Austal will be awarded contracts to construct the vessels.

Australia

Financial performance from Australia was impacted by a contraction in production activity and profit generation following the conclusion of the original 8-vessel Cape Class Patrol Boat block-buy contract in August 2015 as well as a reduction in profit share associated with components supplied to Austal USA as a result of the LCS downgrade. FY2016 segment revenue was \$187.1 million (FY2015: \$211.8 million) and an EBIT of \$6.8 million (FY2015: \$32.1 million EBIT profit).

Operations in Australia in FY2016 included the construction of two, 72-metre High Speed Support Vessels (HSSV) for the Royal Navy of Oman, under a US\$125 million contract. The first HSSV was delivered in May 2016 with the second vessel to be delivered in FY2017 H1. Austal also undertook its first 'hybrid' build, demonstrating the integration of the Australia and Philippines shipyards in constructing a 70-metre fast crew boat for Caspian Marine Services, under a US\$34 million contract. The forward hull module was fabricated at the Philippines shipyard and the superstructure and aft hull module were constructed and integrated at the Australia shipyard, with delivery scheduled for FY2017 H1.

Austal was also successful in winning a \$305 million competitive tender from the Commonwealth of Australia to construct 19 steel hulled Pacific Patrol Boats, a \$63 million contract to construct two additional Cape Class Patrol Boats (to be chartered to the Royal Australian Navy), and a \$100 million commercial contract to design and build a 109 metre vehicle passenger ferry for Mols Linien A/S (Mols) of Denmark.

The two additional CCPB did not contribute to revenue nor profit generation during FY2016 because they are accounted for as a financing arrangement with charter income to be recognised over the three year term of the charter period. The Pacific Patrol Boats and Mols contracts have a long design period with construction due to commence late in FY2017, hence they did not contribute to profit in FY2016.

Philippines

Austal's Philippines shipyard reported revenue of \$33.9 million (FY2015: \$38.7 million) and a segment EBIT loss of \$(3.8) million (FY2015: \$1.0 million profit). The EBIT loss was driven by labour productivity, material cost and schedule issues relating to the construction of one vessel. A business wide review of the Philippines was conducted in response to the disappointing result and a remediation plan is being executed through FY2017 including a change of senior management which has already been completed.

The shipyard delivered two 45-metre high speed crew transfer vessels to the Abu Dhabi National Oil Company, commenced construction on two catamaran crew boats valued at US\$54 million, and built the forward hull section for the 70-metre fast crew boat that was then transferred to Austal's Australia shipyard. The Philippines shipyard was awarded two contracts to construct three new high speed passenger ferries valued at approximately US\$20 million in June 2016.

Cash and Capital Management

Austal transitioned from a net debt position of \$(4.2) million at 30 June 2015 to a net cash position of \$51.7 million at 30 June 2016. This improvement was driven by Austal's ongoing strong cash flow from operations of \$102.1 million in FY2016 (FY2015: 110.4 million) generated from the Company's diverse, long-term vessel programs. The FY2015 result was enhanced by the \$54.1 million contribution from the sale of Hull 270, the 102-metre trimaran stock vessel sold to ferry operator Condor.

Austal ended FY2016 with cash at bank of \$224.3 million (30 June 2015: \$148.5 million) and gross debt of \$(172.6) million (30 June 2015: \$152.6 million). Austal paid down a further US\$7.5 million in infrastructure-related, long term debt held in US dollars (Go Zone Bonds) during the year. The Company entered into a contract to construct two additional Cape Class Patrol Boats which will then be chartered by NAB to the Commonwealth of Australia (Royal Australian Navy) for a minimum term of three years with a right to sell the two vessels back to Austal at the end of the charter period for an agreed residual value. The contract is accounted for as a financing arrangement which results in the construction costs being recognised as capital expenditure and the progress payments from NAB recognised as vessel finance (debt). This vessel finance totalled \$(25.8) million at 30 June 2016.

Final Dividend & Debt Reduction

Austal's strong cash generation from operations and net cash position has enabled the Board to declare a final FY2016 fully franked dividend of 2 cents per share and approve the repayment of a further US\$7.5 million in debt (Go Zone Bonds) during FY2017 H1 with further repayments anticipated later in the financial year.

Details of key dates regarding the dividend are:

- Ex-dividend date: Tuesday, 13 September 2016
- Record date: Wednesday, 14 September 2016
- Payment date: Friday, 7 October 2016

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 reiterates FY2017 guidance of US shipbuilding EBIT margin between 5-7 per cent, group EBIT of \$45–55 million¹, and ongoing positive operating cash flows. This outlook supports the ongoing payment of dividends, investment in growth initiatives, and further reduction in Austal's infrastructure-related debt in the year.

Austal's strategic initiatives to enhance returns to shareholders remain unchanged:

1. Sustain the business by securing further export contracts in commercial and defence markets.
2. Strengthen the business through cost and productivity improvement.
3. Diversify the business by increasing annuity style revenues from sustainment work.
4. Scale the business by positioning the Company to be "The Australian Shipbuilder".
5. Deliver dividends and continue to repay US infrastructure related debt with cash generated from US operations.

Austal CEO David Singleton said: "Austal is well placed with an order book of \$3.4 billion across our three shipyards, a strong balance sheet, and significant pipeline opportunities for defence and commercial vessels."

"Our 10-ship EPF program in the USA is performing well and we anticipate the award of EPF 11 and 12, with Austal already awarded contracts to procure long lead items for those ships."

"Meanwhile, the LCS program continues to improve and mature. Physical shock trials on LCS 6 concluded recently with positive preliminary feedback from the US Navy, and we are making good progress on nine additional LCS currently under construction. There are strong prospects for the award of additional ships from the US Navy with the expected transition to the future frigate."

"The \$280 million Pacific Patrol Boat program in Australia, and new commercial contracts such as the \$100 million, 109 metre vehicle passenger ferry, and sustainment work is generating substantial engineering design activity in FY2017 and will drive profitable shipbuilding activity in future years. We also anticipate the major Offshore Patrol Vessel contract will be awarded by the Australian Government in the coming year and are actively targeting this work. Austal has also undertaken a range of initiatives to both strengthen our key defence supplier status and deliver major cost reductions, which are beginning to have a positive financial impact."

¹ FY2017 EBIT guidance at an assumed exchange rate of AUD-USD 0.73.

“We are heading towards optimal utilisation in the Philippines, as we work on three new ferry orders and are tendering for a strong pipeline of additional work.”

“Pleasingly there has already been excellent traction on our Chinese ferry joint venture with Guandong Jianglong Shipbuilding, with a \$10 million contract to design and build a 42 metre high speed aluminium ferry awarded this month, just two months since the agreement was announced.”

“Austal is targeting additional defence support work in the USA and Australia with the growing fleet of Austal-built vessels.”

-Ends-

Conference Call

Austal Limited (**Austal**) (ASX:ASB) wishes to advise that its Chief Executive Officer David Singleton and Chief Financial Officer Greg Jason will hold an analyst and investor conference call on 29 August 2016 at the time listed below to discuss the Company’s FY2016 results.

Conference call details:

Date: Monday, 29 August 2016
Time: 7:30am Perth time (AWST) / 9:30am Sydney time (AEST) – participants are requested to dial in 5 minutes prior to the start time
Conference ID: 6231 9057

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.

Canada	1855 5616 766	New Zealand	0800 452 782
China	4001 203 085 or 8008 702 411	Singapore	800 616 2288
Hong Kong	800 908 865	United Kingdom	0808 234 0757
India	1800 3010 6141	United States	1855 293 1544
Japan	0120 477 087		

Archived Call: An archived copy of the call will be available shortly after the conclusion of the call via <http://www.openbriefing.com/OB/2255.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 7 October 2016 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 7 October 2016 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 beginning on (and including) the second business day after the dividend record date – that is, the period from Friday 16 September – Thursday 22 September 2016 (inclusive of those dates). No discount shall apply to the allocation price. Shares will be issued on 21 October 2016 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 15 September 2016. Details for Advanced Share Registry are:

Advanced Share Registry Services
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: Thursday 15 September 2016
- 5 trading day pricing period for DRP: Friday 16 September – Thursday 22 September 2016
- Date for issue of shares under DRP: Friday 21 October 2016

About Austal

Austal is a global defence prime contractor and a designer and manufacturer of defence and commercial ships. For more than 27 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 255 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 Expeditionary Fast Transport (EPF) for the U.S. 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 Border Force. 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.

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, and the Middle East together with partner shipyards worldwide.

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