FY2016 earnings and LCS program update

David Singleton, Chief Executive Officer
Greg Jason, Chief Financial Officer

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Summary post detailed review of LCS program

LCS review

- Increased the total cost estimate for LCS 6 – 26 (11 ships) due to design changes required to achieve shock certification and US Naval Vessel Rules

FY16 guidance

- US$115 million (A$156 million) write back of work in progress on a ~ US$4 billion program
- FY2016 Group EBIT loss expected to be A$(116) – (121) million (unaudited)

Cash

- A$75 million free cashflow in FY2016 (unaudited)
- Net cash A$49 million at 30 June 2016 (unaudited)

FY17 guidance

- FY2017 EBIT guidance A$45 – 55 million
- FY2017 USA shipbuilding margin forecast 5 – 7%

Lifetime profit

- LCS shipbuilding program is forecast to be increasingly profitable and cash positive over its life

LCS detailed program review completed

Review complete

- Completed a detailed review of the LCS program following:
  - delivery of LCS 6 & 8
  - Preliminary results from the first two shock trials of LCS 6

Baseline design

- Defined a revised baseline design to meet the shock standard and US Naval Vessel Rules
  - LCS is the first high speed aluminium trimaran to be designed and built to these standards
  - LCS 6 is the first high speed aluminium trimaran to be shock tested
  - Identified significant modifications to vessels already nearing completion to meet the revised baseline design

LCS shock trial – key technical requirement

U.S. Navy photo by Mass Communication Specialist 2nd Class Michael Bevan/Released
LCS 6 shock trial 1 (June 2016)

- Unique nature of the vessel has meant that there were minimal design reference points
- 2 of 3 planned trials now completed and preliminary feedback is positive
- LCS 6 is the only vessel that will be shock trialled (class not vessel specific)
- Design modifications will be implemented across all vessels LCS 6 - 26

Change of cost estimate

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Shock & US Naval Vessel Rules

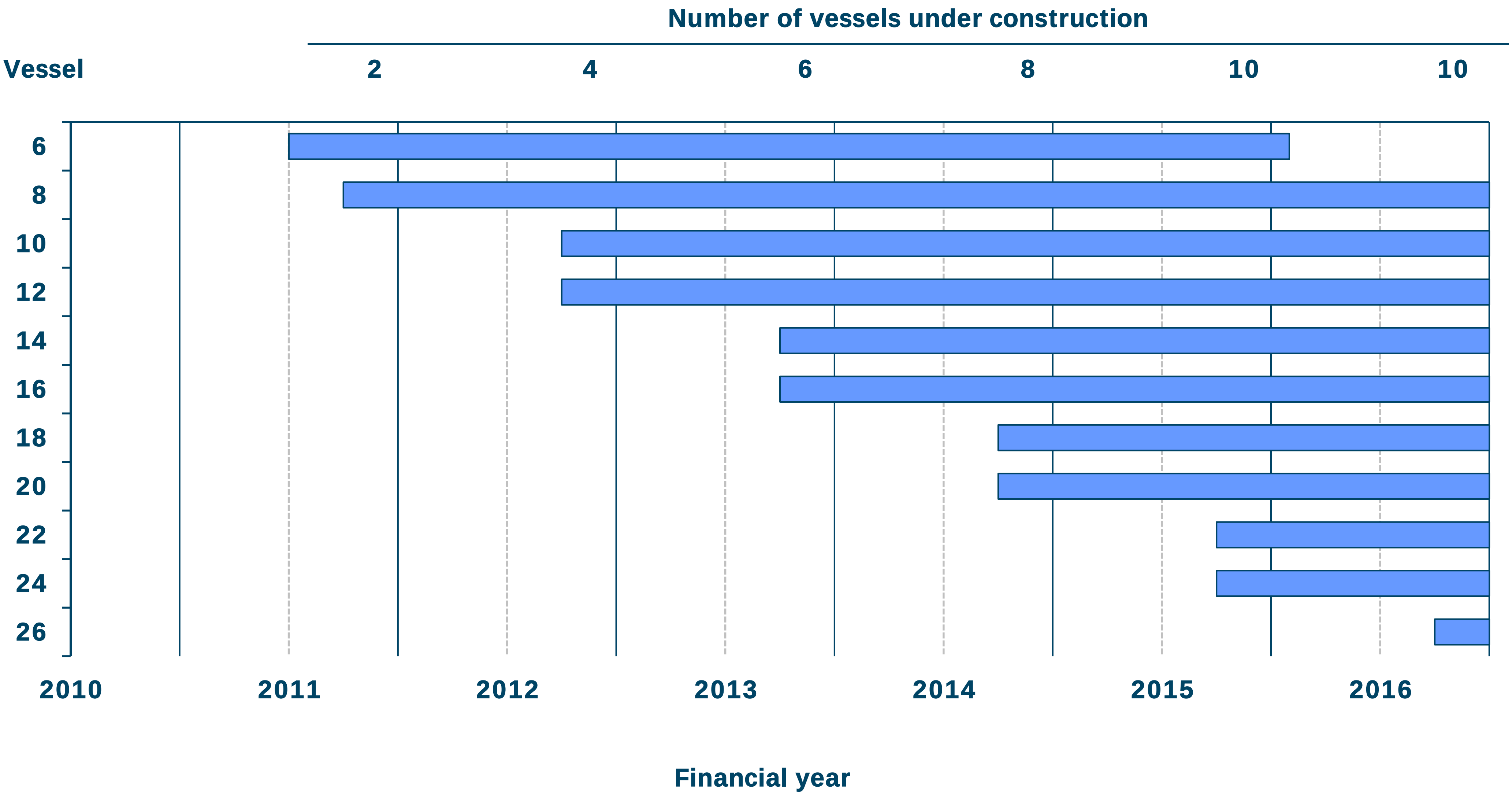
- Materially increased the total cost estimate for LCS 6 – 26 (11 ships) due to changes required to meet the revised baseline design
- In discussion with the customer about increases in design scope that may improve Austal's position
- No value has been attributed to these discussions given their preliminary nature

Concurrent construction

- The cost of implementing the design modifications has been exacerbated by concurrent construction of the fleet
- 10 LCS (of 11) had commenced construction by April 2015
- An extensive rework program of constructed vessels is underway

LCS concurrent construction

Rework is significantly exacerbated by the concurrent construction of multiple vessels



Implementation of modifications

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Implementation of modifications has stabilised giving clarity on full program costs

Operational

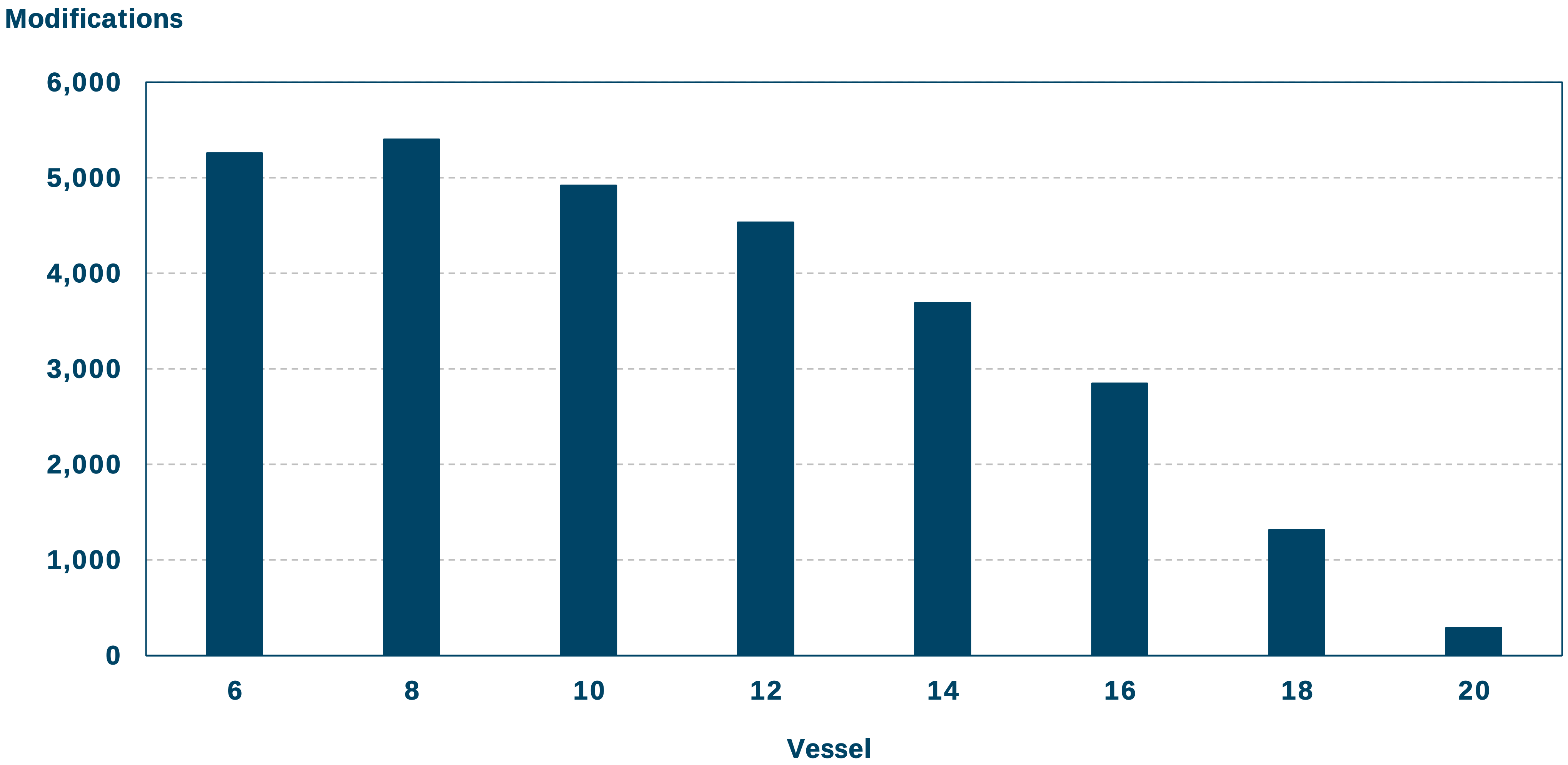
- > 5,000 design modifications with 98% implemented on LCS 6
- Modifications being progressively implemented across the rest of the program
- Continuous optimisation of construction strategy (LCS 8 is the first vessel built in the modular manufacturing facility)

Financial

- Group CFO resident in USA for 2.5 months to review the revised cost estimates and financial impact
- Extent of baseline design modifications and rework quantified as LCS 8 approached completion
- Cost of modifications and rework identified by vessel (costs vary by vessel according to degree of completion)
- Completed a reforecast of LCS program profitability

Modification program is maturing

The chart shows that the rework modifications required to existing ships is decreasing which increases cost confidence



Financial impact

Profit impact

Risk sharing

- Cost increases are shared 50 / 50 with the US Navy up to a ceiling price per the LCS contract structure

Change of estimate

- The change of estimate means that too much revenue and profit was attributed to work already completed
- Work in progress (WIP) is overstated because additional costs will be incurred to meet the shock standard and US Naval Vessel Rules

FY2016

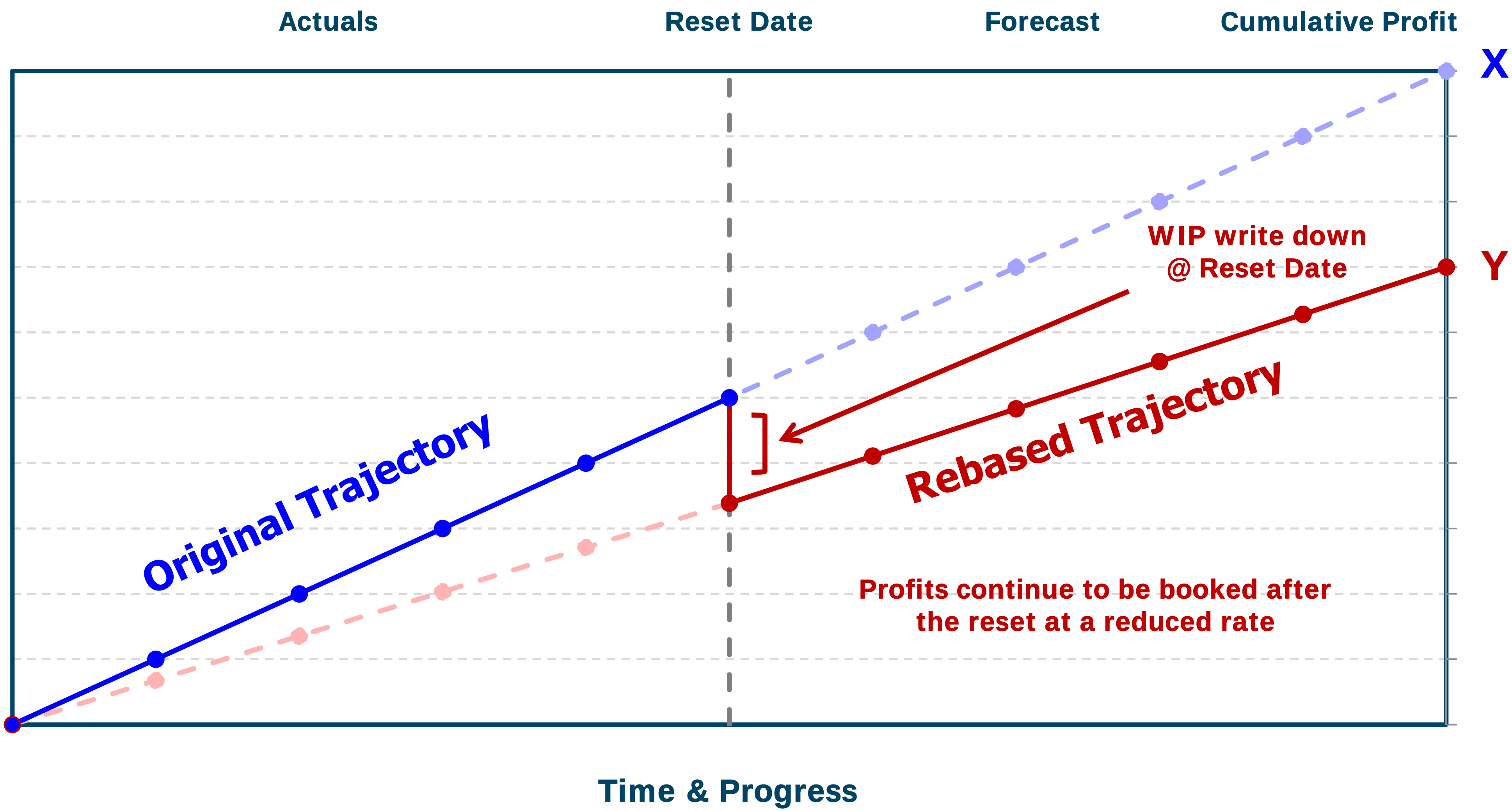
- This is being written back as a downward adjustment to revenue and work in progress (WIP) in FY2016

Future years

- The revenue written back will be recognised in future years to align with the revised cost forecast of the program
- LCS is expected to be profitable over the remaining life of the program

Accounting for changes in cost estimates

Changes in estimated cost at completion result in a write back of WIP and a restatement of profit (graph for illustrative purposes only)



Capital management

Balance Sheet

- **Balance sheet remains strong**
  - Net cash A$49 million at 30 June 2016 (unaudited)
  - FY2016 A$75 million cash flow pre-dividends and debt reduction (unaudited)
  - A$221 million of cash and A$(140) million of infrastructure debt at 30 June 2016 (unaudited)

Dividends

- **No planned change in dividend policy**
  - Long term average ~ 40% of NPAT
  - Expect to declare final FY2016 dividend of 2 cents per share

Debt

- **Compliant with all covenants**
  - All syndicate banks maintain support
  - Expect further reduction in infrastructure debt in FY2017 H1

Group guidance

FY2016

- EBIT A$(116-121) million loss after accounting for write down of work in progress (unaudited)
- Revenue A$1.3 billion after accounting for write down of work in progress

FY2017

- Revenue A$1.4 billion
- EBIT A$45 – 55 million @ USD / AUD 0.73
- FY2017 forecast USA shipbuilding margin 5.0% - 7.0%
- Continued cash generation from operations

Questions

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David Singleton Chief Executive Officer
Greg Jason Chief Financial Officer

Telephone: +61 8 9410 1111

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