FY2016 earnings and LCS program update

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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

- 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

• 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

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

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
Rework is significantly exacerbated by the concurrent construction of multiple vessels.

<table>
<thead>
<tr>
<th>Financial year</th>
<th>Number of vessels under construction</th>
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<tbody>
<tr>
<td>2010</td>
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<tr>
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<td>2016</td>
<td>10</td>
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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
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)

- Original Trajectory
- Rebased Trajectory
- Profits continue to be booked after the reset at a reduced rate

Time & Progress
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
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