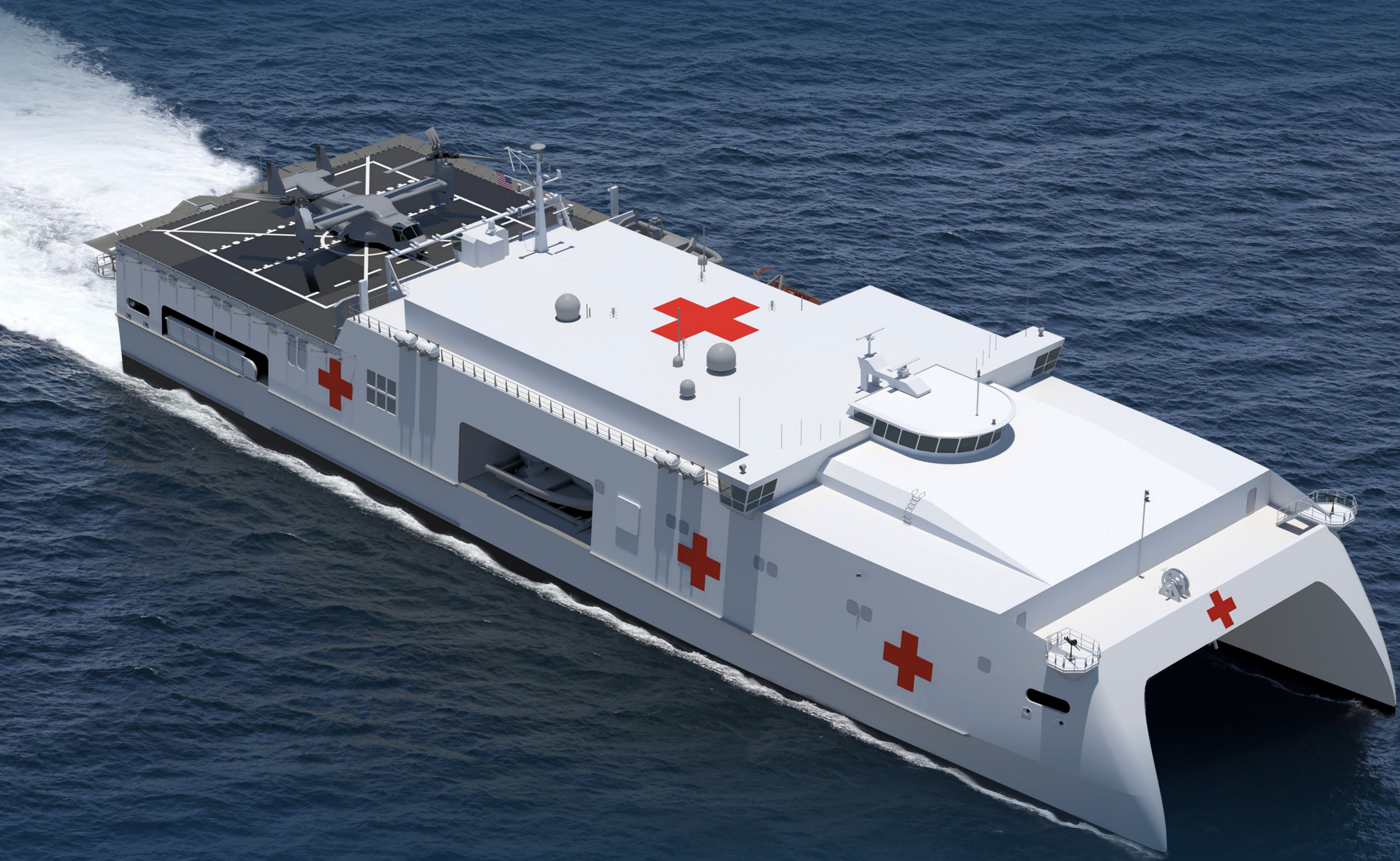
Austal Limited
Half Year Report

2024



AUSTAL

Operations **Overview**

ADV Cape Peron at Indo Pacific 2023

FY2024 is shaping into another landmark year for Austal, following the award of several contracts and the announcement of strategic partnerships that position the company for continued growth in shipbuilding, technology and sustainment operations, worldwide.

Most significantly, Austal entered into a Heads of Agreement (HoA) with the Australian Government in November 2023, to establish a Strategic Shipbuilding Agreement (SSA) that will see Austal become the nation's Strategic Shipbuilder in Western Australia. As part of a pilot program under the SSA HoA, it is proposed that Austal will construct and deliver the Birdon-designed Landing Craft (Medium) capability to the Australian Army under the Commonwealth's LAND 8710-1a project. Eighteen 50 metre steel-hulled landing craft will be constructed in Henderson, with a further eight large (Heavy) landing craft also planned for construction.

The Australian Government also announced an intention to order an additional two Evolved Cape-class Patrol Boats for the Royal Australian Navy, bringing the total number of vessels to be delivered under the SEA 1445-1 Project to ten.

Austal Australia delivered one Evolved Cape-class Patrol Boat to the Royal Australian Navy and three Guardian-class Patrol Boats to Defence Australia in the first half of FY2024; and is currently completing the construction of two more Evolved-Capes and fitting out the remaining four Guardians (of a total 22) for Australia's Pacific Island neighbours. Twenty maintenance (service) availabilities were conducted on Capes, Evolved Capes and Guardians at Austal's Cairns and Darwin service facilities over the period.

Austal is encouraged with the output of the Australian Government's Surface Combatant Fleet Review which was announced two days prior to the date of this report and we look forward to working with the Australian Government to investigate the opportunities that stem from this review.

In the United States, Austal USA secured a number of new contracts that is adding to both their steel and aluminium production lines. In September 2023, the United States Navy awarded a contract for the design and construction of up to 12 steel Landing Craft Utility (LCU) 1700 class vessels and in December a A$1.28 billion contract for three Expeditionary Medical Ships (EMS) was awarded, extending the proven, aluminium Expeditionary Fast Transport platform beyond the current 16 vessels (total 143 delivered, 23 under construction since 2012).

In a clear demonstration of the potential synergies available under the AUKUS partnership, Austal USA commenced construction of command modules for both the Virginia-class and Columbia-class nuclear powered submarines, as a contractor to General Dynamics Electric Boat during the reporting period. Work also continued on the construction of aircraft carrier elevators for the Gerald R. Ford-class Aircraft Carriers, the future USS Enterprise (CVN 80) and future USS Doris Miller (CVN 81) at the Mobile, Alabama shipyard.

While construction of the remaining two Littoral Combat Ships (LCS 36 and 38) for the United States Navy nears completion, Austal USA commenced construction on the first of five steel T-ATS vessels contracted, with the keel laying for the future USS Billy Frank Jr. (T-ATS 11) completed in November 2023. Two T-ATS vessels are under construction, as well as the Auxiliary Floating Dry Dock (Medium) for the United States Navy.

In the commercial market, Austal conducted service and support activities on 15 vessels around the world, including three large refurbishment projects utilising the Lewek Hercules floating dock at the Balamban, Cebu shipyard in the Philippines. In December 2023 Austal was awarded a contract to construct a new 32 metre catamaran ferry for Rottnest Fast Ferries of Hillarys, Western Australia. Construction of this vessel will commence in the first quarter of CY2024 at Austal Philippines.

In total, the Austal group of companies delivered four ships during the first six months of FY2024, received firm orders for seven ships and has a commitment from Defence customers in Australia and the United States for a further 37 vessels; pending the execution of Agreements currently under negotiation and existing contract options being exercised.

2024 H1 Highlights

Landing Craft Utility (LCU) 1700 class for US Navy

$718m
Revenue

$12.7b
Order Book
(with options)

43
Ships scheduled or under construction

4
Ships delivered

60
Vessels under sustainment

8 Service Centres

4,085 Employees

Contents

Directors' report

It is my pleasure to present the financial report for the half-year ended 31 December 2023 to you on behalf of the Board of Austal Limited.

Directors

The Directors in office during the half-year and until the date of this report were:

- John Rothwell (Non-Executive Chairman)
- Patrick Gregg (Chief Executive Officer and Managing Director)
- Sarah Adam-Gedge (Non-Executive Director)
- Chris Indermaur (Non-Executive Director)
- Michael McCormack (Non-Executive Director)
- Lee Goddard (Non-Executive Director)

Kathryn Toohey AM CSC was appointed as Non-Executive Director on 9 February 2024 and continues in office at the date of this report.

Principal Activities

The principal activities of entities within the consolidated entity during the reporting period were the design, manufacture and support of high performance vessels for commercial and defence customers worldwide. These activities are unchanged from the previous reporting period.

Results

Austal reported key financial results as follows:

- FY2024 H1 revenue was $717.7 million (FY2023 H1: $775.0 million).
- Earnings / (Loss) Before Interest and Tax (EBIT) was $32.1 million (FY2023 H1: loss of ($2.0) million).
- Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) was $65.3 million (FY2023 H1: $27.4 million).
- Profit / (Loss) Before Tax (PBT) was a profit of $27.4 million (FY2023 H1: loss of ($7.0) million).
- Net Profit / (Loss) After Tax (NPAT) was a profit of $12.0 million (FY2023 H1: loss of ($7.3) million).

Reconciliation of EBIT and EBITDA (unaudited)

	2024 H1 $'000	2023 H1 $'000
Profit / (Loss) Before Tax	27,415	(7,038)
Finance costs	6,565	5,810
Finance income	(1,912)	(777)
EBIT	32,068	(2,005)
Depreciation	32,028	28,513
Amortisation	1,185	872
EBITDA	65,281	27,380

Austal uses a number of non-IFRS measures to assess performance which are defined as follows:

- EBIT – earnings / (loss) before interest and tax.
- EBITDA – earnings / (loss) before interest, tax, depreciation and amortisation.

EBIT is used to understand segment performance and EBITDA is used to understand cashflows within the Group.

The information is unaudited but is extracted from the financial statements which have been reviewed by the auditor of the Group.

Review of Operations

USA Operations

USA total segment revenue was $581.4 million (FY2023 H1: $569.6 million), and EBIT was $49.0 million (FY2023 H1: loss of ($4.1) million).

Operational highlights of the reporting period include:

- Austal was awarded a US$91.5 million contract in September 2023 to construct three 42 metre steel hulled Landing Craft Utility (LCU) 1700-class vessels for the United States Navy. The contract includes options for the manufacture of an additional nine vessels and associated support arrangements.
- In December 2023 Austal USA was awarded an US$867.6 million undefinitised contract award (UCA) for the final design and construction of three Expeditionary Medical Ships (EMS) from the United States Navy. The EMS is based on Austal's proven Expeditionary Fast Transport ship (EPF) platform and will be manufactured in Austal USA's aluminium manufacturing line following completion of the last Expeditionary Fast Transport (EPF 16), which commenced construction during the reporting period.
- The keel laying for the future USS Billy Frank Jr. (T-ATS 11) took place at the Mobile, Alabama shipyard in November 2023; the first of five Navajo-class T-ATS ships contracted to Austal USA.
- Following the delivery of USS Augusta (LCS 34) in May 2023, two Independence-variant Littoral Combat Ships remain to be delivered by Austal USA; the future USS Kingsville (LCS 36) and the future USS Pierre (LCS 38). Both vessels are in construction and are on schedule for delivery.
- Construction on the 16th Spearhead-class Expeditionary Fast Transport (Flight II configuration) for the United States Navy commenced in September 2023. The EPF Flight II provides a Role 2E (enhanced) medical capability which includes, among other capabilities, basic secondary health care built around primary surgery; intensive care unit; ward beds; and limited x-ray, laboratory and dental support.
- Austal USA commenced construction in its "Focus Factory" of three Electronic Deck Modules (EDM's) for the United States Navy Virginia-class submarine program. The order, valued at US$10.6 million, was issued by prime contractor General Dynamics Electric Boat, following a strategic partnership formed in 2022. As part of the partnership, Austal USA is constructing and outfitting Command and Control Systems Modules (CCSM) and Electronic Deck Modules (EDM) for the Virginia-class and Columbia-class programs.

- Construction continued at Austal USA on aluminium aircraft elevators for two United States Navy Gerald. R Ford-class aircraft carriers; the future USS Enterprise (CVN 80) and the future USS Doris Miller (CVN 81) – the hulls of which are currently under construction at HII's Newport News Shipbuilding division. Austal USA is fabricating two shipsets of aluminium elevators, three elevators per ship, and is on schedule to deliver these from October 2024.
- Austal USA also continued construction on the United States Navy's Auxiliary Floating Dry Dock Medium (AFDM). The AFDM is a "Rennie" type floating dry dock which has an 18,000 LT lifting capacity and a clear deck working area of approximately 8,435 square metres. The craft has an overall length of 211 metres, overall pontoon breadth of 48 metres, and a height of 20 metres from baseline to wing deck. The vessel design incorporates features that improve operability and maintainability, based on Austal USA's experience from owning, operating and maintaining a similar dry dock at its adjacent ship repair facility.
- Following the official opening of Austal USA's new waterfront service facility in San Diego in February 2023, the company's new floating dock, Independence, will be commissioned during FY2024; allowing the company to more efficiently service larger vessels such as Littoral Combat Ships for the United States Navy.

Australasia Operations

Australasia segment revenue was $141.6 million (FY2023 H1: $208.7 million), and EBIT was a loss of ($6.4) million (FY2023 H1: earnings of $14.4 million).

Operational highlights of the reporting period include:

- Austal Australia signed a Heads of Agreement (HoA) with the Australian Government in November 2023 to establish a Strategic Shipbuilding Agreement (SSA) between Austal and the Commonwealth, that will see the company become Australia's naval shipbuilder in Western Australia.

  As part of a pilot program under the SSA HoA, it is proposed that Austal will construct and deliver Landing Craft (Medium) capability to the Australian Army under the Commonwealth's LAND8710-1a project. Eighteen 50 metre steel-hulled landing craft will be constructed in Henderson, with a further eight large (Heavy) landing craft also planned for construction.
- The Australian Government also announced an intention to order an additional two Evolved Cape-class Patrol Boats for the Royal Australian Navy, bringing the total number of vessels to be delivered under the SEA1445-1 Project to ten.
- Austal Australia delivered one Evolved Cape-class Patrol Boat, the ADV Cape Pillar to the Royal Australian Navy, in October 2023; and three Guardian-class Patrol Boats to Defence Australia in the first half of FY2024. The Henderson, Western Australia shipyard is currently completing the construction of two Evolved Cape-class Patrol Boats and fitting out the remaining four Guardian-class Patrol Boats (of a total 22) under the Pacific Patrol Boat Replacement Project (SEA3036-1).
- Twenty maintenance (service) availabilities were conducted on Capes, Evolved Capes and Guardians at Austal's Cairns and Darwin service facilities over the period.
- In the commercial market, Austal Australasia conducted service and support activities on 15 vessels around the world, including three large refurbishment projects utilising the Lewek Hercules floating dock at the Balamban, Cebu shipyard in the Philippines. In December 2023 Austal was awarded a contract to construct a new 32 metre catamaran ferry for Rottnest Fast Ferries of Hillarys, Western Australia. Construction of this vessel will commence in the first quarter of CY2024 at Austal Philippines.

Cash management & dividends

The net cash position as per the balance sheet was $28.1 million at 31 December 2023 (30 June 2023: $49.7 million).

Austal has a cash balance of $155.1 million at 31 December 2023 (30 June 2023: $179.2 million). No interim dividend was declared post 31 December 2023.

$10.8 million cash was returned to shareholders following the declaration by the Board of a 3 cents per share unfranked dividend on 30 August 2023. The dividend was paid to shareholders on 20 October 2023.

Rounding of Amounts

The amounts contained in this half-year Financial Report are presented in Australian dollars and have been rounded to the nearest $1,000 (where rounding is applicable) under the option available to the Company under ASIC Corporations (Rounding in Financial / Directors' Reports) Instrument 2016 / 191. The Company is an entity to which the instrument applies.

Auditor's Declaration of Independence

Austal has obtained an independence declaration from its auditors, Deloitte Touche Tohmatsu, which is on page 9 and forms part of the Directors' Report.

This report has been made in accordance with a resolution of Directors.

John Rothwell

Chairman

23 February 2024

Auditor independence

Deloitte.

Deloitte Touche Tohmatsu
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The Board of Directors
Austal Limited
100 Clarence Beach Rd
Henderson, WA
6166, Australia

23 February 2024

Dear Board Members,

Austal Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the Directors of Austal Limited.

As lead audit partner for the review of the half year financial report of Austal Limited for the half-year ended 31 December 2023, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely,

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

David Newman
Partner
Chartered Accountants

Consolidated statement of profit and loss and other comprehensive income for the half-year ended 31 December 2023

	Notes	2024 H1 $'000	2023 H1 $'000
Continuing operations			
Revenue	4	717,657	775,022
Cost of sales	4	(624,533)	(725,849)
Gross Profit		93,124	49,173
Other income and expenses		13,493	10,673
Administration expenses		(65,959)	(50,959)
Marketing expenses		(8,590)	(10,892)
Finance income		1,912	777
Finance costs		(6,565)	(5,810)
Profit / (Loss) before income tax		27,415	(7,038)
Income tax (expense)	8	(15,391)	(257)
Profit / (Loss) after tax		12,024	(7,295)
Other comprehensive income (OCI)			
Amounts that may subsequently be reclassified to profit and loss:			
Cash flow hedges			
- Net (loss)		(1,336)	(3,397)
- Income tax benefit	8	299	970
- Total		(1,037)	(2,427)
Foreign currency translations			
- Net (loss) / gain		(14,399)	8,517
- Total		(14,399)	8,517
Total		(15,436)	6,090
Amounts not to be reclassified to profit and loss in subsequent periods:			
Asset revaluation reserve			
- Income tax (expense) / benefit	8	(256)	638
- Total		(256)	638
Other comprehensive (loss) / income for the period		(15,692)	6,728
Total comprehensive (loss) for the year		(3,668)	(567)

Earnings / (Loss) per share (cents per share)	cents / share	cents / share
Basic earnings / (loss) per share	3.3	(2.0)
Diluted earnings / (loss) per share	3.3	(2.0)

Consolidated statement of financial position as at 31 December 2023

	Notes	31 December 2023 $'000	30 June 2023 $'000
Assets			
Current			
Cash and cash equivalents		155,124	179,201
Inventories and work in progress		424,643	329,137
Trade and other receivables		66,311	135,047
Prepayments		25,942	45,730
Derivatives		284	1,358
Income tax receivable		4,525	117
Total		676,829	690,590
Non - current			
Property, plant and equipment		955,989	962,541
Intangible assets and goodwill		40,026	38,328
Prepayments		50,817	52,209
Derivatives		117	87
Right of use lease assets		152,813	160,468
Other financial assets		16,591	16,289
Deferred tax assets		9,249	6,916
Total		1,225,602	1,236,838
Total		1,902,431	1,927,428
Liabilities			
Current			
Progress payments received in advance		(183,783)	(217,212)
Trade and other payables		(217,606)	(134,586)
Provisions		(102,444)	(125,795)
Derivatives		(1,074)	(1,127)
Income tax payable		(17,160)	(9,920)
Lease liabilities		(4,393)	(4,982)
Deferred grant income		(15,385)	(15,324)
Total		(541,845)	(508,946)
Non - current			
Interest bearing loans and borrowings	6	(126,991)	(129,499)
Provisions		(68,673)	(76,394)
Derivatives		(37)	(357)
Lease liabilities		(102,725)	(105,976)
Deferred grant income		(95,540)	(100,634)
Deferred tax liabilities		(31,856)	(56,804)
Total		(425,822)	(469,664)
Total		(967,667)	(978,610)
Net assets		934,764	948,818
Equity attributable to owners of the parent			
Contributed equity	7	144,809	144,518
Reserves		353,529	369,147
Retained earnings		436,426	435,153
Total		934,764	948,818

Consolidated statement of changes in equity for the half-year ended 31 December 2023

	Issued Capital $'000	Reserved Shares [1] $'000	Retained Earnings $'000	Foreign Currency Transl'n Reserve $'000	Employee Benefits Reserve $'000	Cash Flow Hedge Reserve $'000	Common Control Reserve $'000	Asset Reval'n Reserve $'000	Total Equity $'000
Equity at 1 July 2022	146,236	(2,304)	477,899	119,811	8,878	3,781	(17,594)	187,578	924,285
Comprehensive income									
Loss for the period	-	-	(7,295)	-	-	-	-	-	(7,295)
Other comprehensive income	-	-	-	8,517	-	(2,427)	-	638	6,728
Total	-	-	(7,295)	8,517	-	(2,427)	-	638	(567)
Other equity transactions									
Dividends declared	-	-	(14,474)	-	-	-	-	-	(14,474)
Share based payments expense	-	-	-	-	1,416	-	-	-	1,416
Shares issued to employee share trust	1,459	(1,459)	-	-	-	-	-	-	-
Shares or proceeds transferred to beneficiaries	21	357	-	-	(378)	-	-	-	-
Total	1,480	(1,102)	(14,474)	-	1,038	-	-	-	(13,058)
Movement	1,480	(1,102)	(21,769)	8,517	1,038	(2,427)	-	638	(13,625)
Equity at 31 December 2022	147,716	(3,406)	456,130	128,328	9,916	1,354	(17,594)	188,216	910,660
Equity at 1 July 2023	147,775	(3,257)	435,153	142,641	10,788	597	(17,594)	232,715	948,818
Comprehensive income									
Profit for the period	-	-	12,024	-	-	-	-	-	12,024
Other comprehensive income	-	-	-	(14,399)	-	(1,037)	-	(256)	(15,692)
Total	-	-	12,024	(14,399)	-	(1,037)	-	(256)	(3,668)
Other equity transactions									
Dividends declared	-	-	(10,751)	-	-	-	-	-	(10,751)
Share based payments expense	-	-	-	-	365	-	-	-	365
Shares issued to employee share trust	-	-	-	-	-	-	-	-	-
Shares or proceeds transferred to beneficiaries	(12)	303	-	-	(291)	-	-	-	-
Total	(12)	303	(10,751)	-	74	-	-	-	(10,386)
Movement	(12)	303	1,273	(14,399)	74	(1,037)	-	(256)	(14,054)
Equity at 31 December 2023	147,763	(2,954)	436,426	128,242	10,862	(440)	(17,594)	232,459	934,764

1. Reserved shares are held in relation to an employee share trust.

Consolidated statement of cash flows for the half-year ended 31 December 2023

	Notes	2024 H1 $'000	2023 H1 $'000
Cash flows from operating activities			
Receipts from customers		774,334	833,029
Payments to suppliers and employees		(702,950)	(830,765)
Income tax paid		(33,120)	(5,273)
Interest paid		(6,565)	(5,810)
Interest received		1,912	777
Net cash from / (used in) operating activities		33,611	(8,042)
Cash flows from investing activities			
Purchase of property, plant and equipment		(39,686)	(35,159)
Payment for intangible assets		(3,278)	(104)
Proceeds from sale of property, plant and equipment		53	141
Receipts of government infrastructure grants		6,119	15,641
Net cash (used) in investing activities		(36,792)	(19,481)
Cash flows from financing activities			
Dividends paid		(10,751)	(14,474)
Principal component of lease payments		(5,381)	(3,189)
Payment of borrowing costs		(445)	(98)
Net cash (used) in financing activities		(16,577)	(17,761)
Net decrease in cash and cash equivalents		(19,758)	(45,284)
Cash and cash equivalents			
Cash and cash equivalents at beginning of period		179,201	240,113
Net decrease in cash and cash equivalents		(19,758)	(45,284)
Net foreign exchange differences		(4,319)	(9,889)
Cash and cash equivalents at end of period		155,124	184,940

Notes to the consolidated financial statements for the half-year ended 31 December 2023

Note 1 Corporate information

The half-year Financial Report of Austal Limited and its controlled entities (the Company, Group or consolidated entity) for the period ended 31 December 2023 was authorised for issue in accordance with a resolution of the Directors on 23 February 2024.

Austal Limited is a company limited by shares, incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange. Its registered office and principal place of business is at 100 Clarence Beach Rd, Henderson, WA 6166, Australia.

Note 2 Basis of preparation

The half-year Financial Report is a general purpose condensed financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001* and AASB 134 *Interim Financial Reporting*.

The half-year Financial Report does not include all of the notes normally included within the Annual Financial Report and therefore cannot be expected to provide as full an understanding of the financial performance and financial position of the consolidated entity as the Annual Financial Report.

The half-year Financial Report should be read in conjunction with the 2023 Annual Financial Report and considered together with any public announcements made by Austal Limited and its controlled entities up to the release date of this report in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001* and Australian Securities Exchange Listing Rules.

The half-year Financial Report has been prepared using the same accounting policies as used in the Annual Financial Report for the year ended 30 June 2023. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

i New and amended standards adopted by the group

A number of amended standards became applicable for the current reporting period. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these amended standards.

ii Impact of standards issued but not yet applied by the entity

The Group has not yet early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

Note 3 Operating segments

	USA			Australasia			Unallocated	Elimination / Adjustments	Total
	Ships $'000	Support $'000	Total $'000	Ships $'000	Support $'000	Total $'000	$'000	$'000	$'000
2024 H1									
Revenue									
External customers	454,538	126,821	581,359	67,339	68,997	136,336	-	(38)	717,657
Inter-segment [1]	-	-	-	4,033	1,221	5,254	-	(5,254)	-
Total	454,538	126,821	581,359	71,372	70,218	141,590	-	(5,292)	717,657
Profit / (loss) before tax									
Earnings before interest and tax	24,529	24,464	48,993	(9,092)	2,715	(6,377)	(10,722)	174	32,068
Finance income	-	-	-	-	-	-	1,912	-	1,912
Finance expenses	-	-	-	-	-	-	(6,565)	-	(6,565)
Profit / (loss) before income tax	24,529	24,464	48,993	(9,092)	2,715	(6,377)	(15,375)	174	27,415
Depreciation and amortisation	(18,934)	(5,062)	(23,996)	(5,853)	(3,364)	(9,217)	-	-	(33,213)
Balance sheet at 31 Dec 2023									
Segment assets	1,336,042	154,542	1,490,584	235,610	145,914	381,524	34,233	(3,910)	1,902,431
Segment liabilities	(721,032)	(72,376)	(793,408)	(54,922)	(77,638)	(132,560)	(58,366)	16,667	(967,667)

	USA			Australasia			Unallocated	Elimination / Adjustments	Total
	Ships $'000	Support $'000	Total $'000	Ships $'000	Support $'000	Total $'000	$'000	$'000	$'000
2023 H1									
Revenue									
External customers	451,109	118,530	569,639	129,425	76,043	205,468	-	(85)	775,022
Inter-segment [1]	-	-	-	1,415	1,774	3,189	-	(3,189)	-
Total	451,109	118,530	569,639	130,840	77,817	208,657	-	(3,274)	775,022
(Loss) / profit before tax									
Earnings before interest and tax	(11,952)	7,855	(4,097)	10,812	3,564	14,376	(12,596)	312	(2,005)
Finance income	-	-	-	-	-	-	777	-	777
Finance expenses	-	-	-	-	-	-	(5,810)	-	(5,810)
(Loss) / profit before income tax	(11,952)	7,855	(4,097)	10,812	3,564	14,376	(17,629)	312	(7,038)
Depreciation and amortisation	(17,319)	(3,542)	(20,861)	(5,627)	(2,897)	(8,524)	-	-	(29,385)
Balance sheet at 30 Jun 2023									
Segment assets	1,240,189	232,691	1,472,880	294,251	144,747	438,998	20,598	(5,048)	1,927,428
Segment liabilities	(700,414)	(58,307)	(758,721)	(79,031)	(84,657)	(163,688)	(72,956)	16,755	(978,610)

1. Inter-segment revenues, investments, receivables and payables are eliminated on consolidation.

i Identification of reportable segments

The Group is organised into four business segments for management purposes. This is based on the location of the production facilities, related sales regions, operating results and types of activity.

The Chief Executive Officer, who is the Chief Operating Decision Maker (CODM), monitors the performance of the business segments separately for the purpose of making decisions. Segment performance is evaluated based on EBIT. Finance costs, finance income and income tax are managed on a Group basis (i.e. Unallocated).

The CODM monitors the tangible, intangible and financial assets attributable to each segment for the purposes of monitoring segment performance and allocating resources between segments. All assets are allocated to reportable segments with the exception of financial instruments, and deferred tax assets. Goodwill has been allocated to reportable segments.

ii Reportable segments

The reportable segments are:

1. USA Shipbuilding

The USA manufactures high performance defence vessels, primarily for the US Navy and Coast Guard.

2. USA Support

The USA provides on-going support and maintenance of Austal and non-Austal vessels to the US Navy, principally in the USA and other international jurisdictions.

3. Australasia Shipbuilding

The Australasia Shipbuilding segment comprises Austal's Australia, Philippines and Vietnam shipbuilding operations. These operations act as a single business unit for tendering, scheduling, resource planning and management accountability.

Australasia manufactures high performance vessels for markets worldwide, excluding the USA.

4. Australasia Support

The Australasia Support segments comprises Austal's Australia, Oman and Trinidad & Tobago operations. These locations act as a single business unit for allocation of resources, training, on-going support and maintenance for high performance vessels.

iii Accounting policies, inter-segment transactions and unallocated items

The accounting policies used for reporting segments internally are the same as those utilised for reporting the accounts of the Group. Inter-entity sales are recognised based on an arm's length pricing structure in accordance with the Group's transfer pricing policy.

Certain unallocated items are not considered to be part of the core operations of any segment.

Note 4 Revenue and expenses

Profit / (Loss) before income tax expense includes the following revenues and expenses whose disclosure is relevant in explaining the performance of the entity:

Revenue and expenses disclosure	2024 H1 $'000	2023 H1 $'000
Revenue		
Shipbuilding	521,839	580,449
Support	195,818	194,573
Total	717,657	775,022
Cost of sales		
Shipbuilding	(489,260)	(574,197)
Support	(135,273)	(151,652)
Total	(624,533)	(725,849)

i Recognition and measurement

Revenue represents income derived from contracts for the provision of goods and services by the Company and its subsidiary undertakings to customers in exchange for consideration in the ordinary course of the Group's activities.

The Group derives the following types of revenue:

1. Vessel construction

Vessel construction / shipbuilding revenue includes the design and construction of both defence and commercial vessel platforms. Defence vessels include advanced naval and other defence vessels and commercial vessels include passenger ferries, vehicle passenger ferries, offshore and windfarm vessels.

2. Vessel support

Vessel support revenue includes through-life capability management and vessel support services, including crew training and instruction, vessel servicing, repairs and maintenance, integrated logistics support, vessel sustainment and information management systems support. Austal also provides comprehensive refit services and management of annual dockings to naval, government and commercial operators.

Full disclosure of the Group's accounting policy in relation to AASB 15 *Revenue from Contracts with Customers* can be found in Note 4 of the 2023 Annual Financial Report.

ii Significant accounting judgements and estimates

1. Contract revenue and expected construction profits at completion

The assessment of contract revenue in accordance with the Group's accounting policies requires certain estimates to be made for total contract revenues, total contract costs and the current percentage of completion. Estimates were made by management with respect to total contract revenues, and total contract costs, which had a resulting impact on the percentage of completion, in line with the Group accounting policy for contract revenue.

2. Onerous contract provisions

Expected losses are recognised immediately as an expense when it is probable that total contract costs will exceed total contract revenue (i.e. the contract has become onerous). Further detail of onerous contracts provided for are contained in Note 10.

3. Contingencies

Significant judgement is required in relation to the determination of cost contingencies that are included within the estimated total contract costs for each vessel project at balance date.

Examples of risks

The Group includes contingencies in individual vessel projects to allow for risks associated with estimates of material volumes and costs, labour hours including productivity improvements from ship to ship in multi vessel programs, labour rates, future overhead rates, liquidated damages for contractual commitments and other risks that may be identified for each individual project on a case by case basis such as the incorporation and development of novel technologies and production methods and achievement of key milestones.

Consumption and release of contingencies

Contingencies will either be consumed or released as progress is made on each vessel, and the risks are either realised or retired and / or certain milestones are achieved. Successful mitigation of the risks and / or successful achievement of the milestones can be estimated with greater certainty in the latter stages of the completion of each particular vessel. The profit recognised on relevant vessels will decrease in future reporting periods in the event that initial contingency estimates do not adequately cover unplanned cost increases. The profit recognised on relevant vessels will increase in future reporting periods in the event that initial contingency estimates exceed any unplanned cost increases that may eventuate.

USA

USA shipbuilding cost performance on LCS and EPF has continued to improve, and the remaining contingencies were released in FY2023 with the impending completion of the final vessels.

Other programs

Future judgements about the appropriate level of contingencies to be held for each new vessel could result in an increase or decrease in the profit recognised on relevant vessels in FY2024 and future reporting periods.

Australasia

Australasia is completing a number of vessels under multi vessel contracts.

First in class vessels carry heightened cost risk associated with vessel performance, schedule adherence and material consumption and labour productivity.

Multi vessel contracts provide the opportunity for efficiency improvements from vessel to vessel which are typically built into customer pricing and hence achievement of improvements from vessel to vessel (i.e. a learning curve) represents additional cost risk.

Contingencies held at 31 December 2023 for undelivered vessels in the Australasia business unit were $3 million (30 June 2023: $4 million). This was equivalent to 3.3% of ETC
(30 June 2023: 5.2%).

Note 5 Dividends paid and proposed

Dividends paid on ordinary shares	2024 H1 $'000	2023 H1 $'000
Unfranked final dividend for the prior year, 3 cps (2023 HY: unfranked, 4 cps)	10,751	14,474
Dividend declared subsequent to the reporting period end (not recorded as liability)		
Unfranked interim dividend for the current year 0 cps (2023 HY: unfranked, 4 cps)	-	14,498

Note 6 Interest bearing loans and borrowings

	31 Dec 2023 $'000	30 Jun 2023 $'000
Non - current		
Go Zone Bonds	(126,991)	(129,499)
Total	(126,991)	(129,499)

i Go Zone Bonds

The Gulf Opportunity Zone Bonds (Go Zone Bonds or GZB) are a form of indebtedness that was authorised by the US Federal Government to incentivise private investment in infrastructure in geographical areas that were affected by Hurricane Katrina in 2005. Austal qualified to borrow US$225 million with a 30 year maturity to invest in the development of shipbuilding infrastructure in Austal USA between FY2008 & FY2013.

Go Zone Bonds are tax-exempt municipal bonds in the United States and attracted an average coupon rate of 3.5383% in H1 FY2024 (FY2023: 2.5485%). GZB bondholders are secured by letters of credit issued by Austal's banking syndicate with a maturity date of December 2025 for both Series 2011A and 2011B. The average cost of the letters of credit in H1 FY2024 was 1.5354% (FY2023: 1.5354%). Austal extended the Syndicated Facility and the letters of credit securing the GZB in December 2023, by a term of one year to December 2025.

Austal has redeemed (repaid) a cumulative amount of ~ US$137.5 million at 31 December 2023 (30 June 2023: ~ US$137.5 million) of GZB funds and owes US$87.5 million at 31 December 2023 (30 June 2023: US$87.5 million).

Austal has the option of redeeming the outstanding GZB balance, in whole or in part, at any time during the term of the indebtedness with a 30 day notice to bondholders.

Note 7 Contributed equity

	Shares		$'000	
	31 Dec 2023	30 Jun 2023	31 Dec 2023	30 Jun 2023
Ordinary shares on issue				
Opening	362,441,875	361,858,154	147,775	146,236
Shares issued to Employee Share Trust	-	583,721	-	1,459
Shares or proceeds transferred to beneficiaries	-	-	(12)	80
Closing	362,441,875	362,441,875	147,763	147,775
Reserved shares				
Opening	(1,456,775)	(1,088,675)	(3,257)	(2,304)
Shares issued to Employee Share Trust or sold	-	(583,721)	-	(1,459)
Shares or proceeds transferred to beneficiaries	122,283	215,621	303	506
Closing	(1,334,492)	(1,456,775)	(2,954)	(3,257)
Net	361,107,383	360,985,100	144,809	144,518

Note 8 Income tax

Major components of tax (expense) are:

	2024 H1 $'000	2023 H1 $'000
Consolidated profit and loss		
Current income tax		
Current income tax charge	(35,900)	(4,930)
Adjustments in respect of current income tax of the previous year	(5,669)	(2,682)
Total	(41,569)	(7,612)
Deferred income tax		
Relating to origination and reversal of temporary differences	24,796	7,574
Adjustments in respect of deferred income tax of the previous year	1,382	(219)
Total	26,178	7,355
Total income tax (expense)	(15,391)	(257)
Other comprehensive income (OCI)		
Current and deferred income tax related items charged or credited directly to OCI		
Current and deferred gains and losses on foreign currency contracts	299	970
Deferred gains on revaluation of property, plant and equipment	(256)	638
Total income tax benefit charged to OCI	43	1,608

A reconciliation between tax (expense) and the product of accounting profit / (loss) before income tax multiplied by the Group's applicable income tax rate is as follows:

	2024 H1 $'000	2023 H1 $'000
Accounting profit / (loss) before income tax from continuing operations	27,415	(7,038)
Income tax at the Group's statutory income tax rate of 30% (FY2023 H1: 30%)	(8,225)	2,111
USA combined federal and state income tax rate of 24.7% (FY2023 H1: 25.0%)	2,349	515
Philippines gross income tax (GIT) regime	50	139
Other foreign tax rate differences	(86)	19
USA revalue deferred balances for change in weighted average state rate	(170)	697
Withholding tax leakage due to losses	(649)	(1,119)
Non-assessable R&D credits in cost of sales	1,241	694
Recognition of prior year unrecognised Australian tax group losses	-	229
Recognition of prior year unrecognised Australian R&D credits	-	1,674
Carry forward tax losses not recognised	(5,327)	(67)
Recognition of current year USA tax losses	-	(61)
Transfer pricing adjustments in respect of intercompany royalties	-	(2,101)
Valuation of share based payments	(207)	19
Other non-assessable or non-deductible items	948	(105)
Foreign income taxes	(1,028)	-
Adjustments in respect of current and deferred income tax of the previous year	(4,287)	(2,901)
Total adjustments	(7,166)	(2,368)
Income tax expense reported in the profit and loss	(15,391)	(257)

i Audits by tax authorities

The Group establishes a provision based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences in interpretation may arise for a wide variety of issues depending on the conditions prevailing in the respective domicile of the Group companies.

The Competent Authorities of Australia and the United States of America accepted Austal into the Mutual Agreement Procedures (MAP) and Bilateral Advance Pricing Arrangement (BAPA) programs in relation to the double taxation of intercompany royalties on intellectual property deployed from Australia to the USA.

The Competent Authorities have concluded on the MAP program and have reached an in principle agreement in relation to the BAPA program.

The conclusion of the MAP program will result in a cash refund to Austal of $4.2 million and no impact to the USA.

The proposed impact of the in principle agreement in relation to the BAPA program for Austal will result in an increase in carry-forward tax losses and R&D credits by $37 million and an estimated tax liability in the USA of $11.7 million.

ii Tax planning

Austal seeks to manage its business in a tax-efficient manner, compliant with the tax laws, rules and regulations of the jurisdiction it operates in. Transactions are undertaken for commercial and economic business reasons; Austal will not knowingly participate in, facilitate nor promote artificial or contrived tax planning arrangements for the purposes of tax avoidance.

Austal Limited is part of a global consolidated group that may be subject to additional taxation under the OECD Pillar Two tax reforms. These reforms apply to multinational entities which revenues exceeding EUR 750 million and would apply a ‘top up’ tax to profits in low taxing jurisdictions. In accordance with the mandatory exception introduced into AASB 112 Income Taxes, the Austal Limited group has not recognised any deferred taxes arising from the Pillar Two reforms. Austal is currently undertaking a comprehensive review of its systems in order to prepare for the implementation of the Pillar Two regime.

Note 9 Impairment testing of non-current assets

i Review cycle

Cash generating units (CGUs) within the Group are assessed for impairment at least annually where they hold goodwill or indefinite life intangible assets. In addition to this, all CGUs are assessed for impairment when impairment indicators are identified. Non-current assets are reviewed on an annual basis in accordance with the Group’s accounting policies to determine whether there is an impairment indicator. An estimate of the recoverable amount is made where an impairment indicator exists.

ii Cash generating units (CGU)

The recoverable amounts are assessed at the CGU level as identified below:

- USA Shipbuilding
- USA Support
- Australasia Shipbuilding
- Australasia Support

iii Allocation of assets to CGU

Corporate assets and corporate overheads have been allocated to CGUs to the extent that they are used to support the operations of the CGU.

Goodwill acquired through business combinations has been allocated to the following segments:

- USA Support – a carrying amount of $6.5 million
- Australasia Support – a carrying amount of $25.2 million

iv Assessment of recoverable amounts and sensitivity to changes in assumptions

At 31 December 2023, management assessed whether there were any indicators of impairment. The Company's market capitalisation at 31 December 2023 was below its net assets and management considered this factor as an impairment indicator at 31 December 2023 resulting in the need for an impairment assessment across all CGUs. The Company also concluded that a trigger was present within the Australasia Shipbuilding CGU due to a lack of commercial vessel awards in FY2023 and for the majority of H1 FY2024.

The recoverable amount of the CGUs was determined based on value in use calculations using 5 year cash flow projections and terminal value cash flows.

Key inputs used in the cash flow projections include but are not limited to the profitability of currently contracted work, and the assumed value, probability, and timing of securing currently uncontracted projects.

Changes in these inputs may have an impact on the cash flow projections.

Consideration has been given below as to whether any reasonably possible changes to key assumptions may result in an impairment arising.

USA Shipbuilding

The recoverable amount of the USA Shipbuilding CGU was assessed and the Company concluded that the recoverable amount of the CGU is greater than its carrying value, as during FY2023 and H1 FY2024 there were multiple shipbuilding awards replenishing the order book. The Offshore Patrol Cutter (OPC), T-AGOS Surveillance Ships and Landing Craft Utility (LCU) awards evidence continued demand from the US Coast Guard and US Navy respectively. Consequently no impairment is required as a result of this analysis. There is no goodwill in the USA Shipbuilding CGU.

Further disclosure in relation to the USA Shipbuilding CGU impairment assessment is shown below in the significant accounting judgement and estimates section.

USA Support

The recoverable amount of the USA Support CGU was assessed and the Company concluded that the recoverable amount of the CGU is greater than its carrying value, due to increases in expected throughput based on long term defence sustainment contracts (LCS, EPF and future shipbuilding programs mentioned above). This ability has been enhanced by the expansion of the San Diego operations which were established in December 2021 with the dry dock on track to commence dockings during H2 FY2024, and increased capacity to conduct support activities in Singapore post COVID-19. Consequently no impairment is required as a result of this analysis.

Further disclosure in relation to the USA Support CGU impairment assessment is shown below in the significant accounting judgement and estimates section.

Australasia Shipbuilding

The Company performed an assessment for indicators of impairment and concluded that a trigger was present within the Australasia Shipbuilding CGU due to the lack of new vessel awards in FY2023 and for the majority of H1 FY2024.

The recoverable amount of the Australasia Shipbuilding CGU was assessed, and the Company concluded that the recoverable amount of the CGU is greater than its carrying value.

Key factors supporting this conclusion is the announcement of Austal as the 'Sovereign Shipbuilder of Western Australia'. A Heads of Agreement has been signed between Austal and the Commonwealth of

Australia to establish a Strategic Shipbuilding Agreement (SSA), with specific awards of 2 additional Evolved Cape Class Patrol Boats and Austal being nominated as shipbuilder for both the Australian Army's Landing Craft Medium and Heavy (Littoral Manoeuvre Vessels) under the Commonwealth's LAND 8710 project. The likelihood of further defence contracts is expected to be solidified by the SSA mentioned above which may arise following the release of the Navy's Surface Combatant Fleet Review expected in H2 FY2024, with potential future Corvettes or smaller frigate contracts allocated to Henderson. Commercial shipbuilding awards are expected to arise as a result of the increased demand in the commercial shipbuilding market which has been observed from order enquiries and independent market assessments. Consequently no impairment is required as a result of this analysis. There is no goodwill in the Australasia Shipbuilding CGU.

Further disclosure in relation to the Australasia Shipbuilding CGU impairment assessment is shown below in the significant accounting judgement and estimates section.

Australasia Support

The recoverable amount of the Australasia Support CGU was assessed and the Company concluded that the recoverable amount of the CGU is greater than its carrying value. Throughput is expected to remain consistent based on long term defence sustainment contracts, assuming current contracts continue to be extended. Consequently no impairment is required as a result of this analysis.

Further disclosure in relation to the Australasia Support CGU impairment assessment is shown below in the significant accounting judgement and estimates section.

v Significant accounting judgement and estimates

i. Recoverable amount of the CGU

The following table sets out the key assumptions used to assess the recoverable amounts in the USA Shipbuilding, USA Support, Australasia Shipbuilding and Australasia Support CGUs:

Concept	USA Shipbuilding Assumption	USA Support Assumption	Australasia Shipbuilding Assumption	Australasia Support Assumption
Growth assumptions	Contract awards	Contract awards	Contract awards	Contract awards
EBIT margin	Commercial in Confidence	Commercial in Confidence	Commercial in Confidence	Commercial in Confidence
Perpetuity growth rate	2.5%	2.5%	0.0%	0.0%
Post tax discount rate	9.3%	9.3%	9.3%	9.3%
Average inflation on costs	2.9%	2.9%	3.5%	3.5%

ii. Growth assumptions

Growth assumptions are based on future vessel construction and service projects (awarded and uncontracted). The assumptions are based on historical experience of the size of the vessel that customers typically contract and the corresponding average tender pricing. The CGUs growth assumptions are underpinned by the following:

- USA Shipbuilding - continued demand from the US Coast Guard and US Navy.
- USA Support - expansion of the San Diego operations with dockings commencing during H2 FY2024 and increased capacity to conduct support activities in Singapore post COVID-19.
- Australasia Shipbuilding - the likelihood of further defence contracts arising following the release of the Navy's Surface Combatant Fleet Review given the announcement of Austal as the 'Sovereign Shipbuilder of Western Australia' and commercial shipbuilding awards that are expected to arise as a result of the increased demand in the commercial shipbuilding market.
- Australasia Support - current contracts for which it is assumed they continue to be extended.

iii. EBIT margin

EBIT margins were based upon historical averages adjusted for prevailing economic conditions and forecasts. These have not been disclosed as they are considered to be commercially sensitive.

iv. Perpetuity growth rate

Austal has taken a conservative view and included a 0% (FY2023: 0%) perpetuity growth rate in Australasia and a 2.5% (FY2023: 2.5%) perpetuity growth rate in USA in its calculation of the terminal value.

v. Post tax discount rate

Discount rates are determined with regards to the risks specific to each CGU, taking into consideration the location, time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates.

Austal has adopted a post tax discount rate of 9.3% (FY2023: 9.5%) for the USA and Australasian CGUs.

vi. Inflation on costs

Estimates are obtained from published indices for the countries from which materials are sourced, as well as data relating to specific commodities. Forecast figures are used if data is publicly available, otherwise historical material price movements are used as an indicator of future price movements.

As a result of the impairment assessments performed for each of the CGUs as detailed above, no impairment was required as at 31 December 2023.

Note 10 Onerous contract provision (T-ATS and AFDM Programs)

	T-ATS Program '000	AFDM Program '000	Other '000	Total '000
Provision at 1 Jul 2023	$ (121,951)	$ -	$ (886)	$ (122,837)
Change in estimate of provision*	$ 14,085	$ (13,210)	$ -	$ 875
Utilised	40,270	-	662	40,932
Unused amounts reversed	-	-	239	239
Effects of foreign exchange	346	542	(21)	867
Movement	$ 54,701	$ (12,668)	$ 880	$ 42,913
Provision at 31 Dec 2023	$ (67,250)	$ (12,668)	$ (6)	$ (79,924)

*Change in estimate of provision comprises increases in expected costs, net of expected REA recovery.

i T-ATS Program

Please refer to 30 June 2023 Annual Report for further background information.

Management have reviewed the EACs as part of the half-year end process and applied judgement in calculating an onerous contract provision using a probability weighted approach in line with AASB 137. The judgements applied are detailed below and are expected to result in a total contract loss of $191.9 million (30 June 2023: $188.1 million) and an onerous contract provision of $67.2 million at 31 December 2023 (June 2023: $122.0 million).

Forecast program EAC hours:

During H1 FY2024, an independent third party performed a review of the labour hours contained within the EACs for ships under construction and also estimated the delay impacts on T-ATS 11 that arose as a result of changes to design specifications. The result of this analysis of the delay impact on T-ATS 11 was used to develop a forecast for the hours for the balance of the Program by eliminating the estimated delay hours from the T-ATS 11 EAC hours, before applying a learning curve to arrive at forecast EAC hours for the remaining ships in the Program. The total hours for T-ATS 11 (including delay hours), and the forecasted hours for T-ATS 12 to 15 (excluding the impact of the delay related hours estimated to have been incurred in the construction of T-ATS 11) were used to forecast the Program EAC.

When calculating the onerous provision as at 31 December 2023, management has adopted a probability weighted approach to calculate the onerous contract provision which is balanced between Austal's program office EACs and the scenario noted above which is based on Austal's program office forecast EACs adjusted for the independent third party's estimate of delay hours incurred as part of T-ATS 11.

Request for equitable adjustment:

Additionally, during H1 FY2024, the independent third party who estimated the delay hours noted above was engaged to work alongside a dedicated team at AUSA to prepare a Rough Order of Magnitude (ROM) related to a Request for Equitable Adjustment (REA) submission. As directed by the United States Navy, management submitted a formal notification on 1 December 2023 informing the United States Navy of the updated ROM value which superseded the prior REA which was submitted in August 2022. Discussions between the Company and the United States Navy with respect to the ROM and related REA continue as at the date of these half year financial statements. The calculation of the onerous loss as at 31 December 2023 includes an estimate of the amount of the REA that the Company expects to recover.

Management has performed sensitivities of certain key assumptions in the onerous contract provision calculation which are discussed below.

ii AFDM Program

Austal was awarded a detailed design and construction contract by the United States Navy in June 2022 for the build of an Auxillary Floating Dry Dock (AFDM). This is the second vessel to be constructed in the Company's new steel panel line.

Management conducts regular reviews of costs contained within the Estimates at Completion (EACs). During H1 FY2024, this process identified a number of drivers of increased cost which included cost inflation on materials and labour hours growth.

Management have reviewed the EACs as part of the half-year end process and applied judgement in calculating an onerous contract provision using a probability weighted approach in line with AASB 137. The judgements applied are detailed below and resulted in a total contract loss of $19.7 million and an onerous contract provision of $12.7 million at 31 December 2023.

An independent third party performed a review in H1 FY2024 of the labour hours contained within the EACs. Management evaluated various scenarios and determined that 3 were realistic scenarios given the current position of the Program as of December 2023. Management has adopted a probability weighted approach to calculate the onerous contract provision, which is balanced between the program office EACs, and the most likely case and worst case scenarios from the independent third-party report.

Management has performed sensitivities of certain key assumptions in the onerous contract provision calculation which are discussed below.

iii Significant accounting judgement and estimates relating to the onerous contract provision

The onerous contract provision assessment requires management to make certain estimates regarding the unavoidable costs and the expected economic benefits of the T-ATS and AFDM contracts. These estimates require significant management judgment, given the time period over which the various vessels will be constructed, being FY2024 – FY2028 for the T-ATS Program and FY2024 – FY2027 for the AFDM Program, and are subject to risk and uncertainty and accordingly changes in economic conditions can affect these assumptions. The key assumptions applied when estimating the present value of the provision are set out below:

Labour costs: Represents the forecast cost of labour which can vary depending on market labour rates, the mix of skilled labour required as the program progresses and the productivity achieved especially as the vessel program matures. The forecast labour rate takes account of inflationary increases. The labour hour sensitivity includes the impact of direct labour costs and overheads related to contract fulfilment.

Overhead forecast rate: The overhead rate reflects estimated costs directly related to contract fulfillment (in addition direct costs of production), divided by forecast labour hours taking into account historic and forecast production hours of the current facility.

Materials costs: Forecast materials costs takes into account inflationary increases and are based on latest supplier quotations. Increases or decreases can arise with movements in materials costs over time.

Cost performance index (CPI): CPI is a measure of the program cost efficiencies and is determined by a number of factors, but primarily the structural and labour hour components of construction which would be expected to be more variable in first in class vessel builds.

Learning curve: The learning curve reflects the improved efficiencies that are expected as the learnings from the construction of the first vessel or module are applied to subsequent vessel / module construction. Learning curve assumptions are based on the actual learning curves experienced on other programs run by the Company.

Incentives: Where incentives exist within a program that are dependent on future performance, an estimate is made at each reporting date as to the economic benefits that are expected to be received under the contract. This assessment takes into account historic performance with respect to similar incentives, and also performance on the specific program to date.

Discount rate: A risk free rate of 4% (30 June 2023: 4%) has been applied to the provision based on the time phasing of the estimate to complete / forecast costs.

Requests for Equitable Adjustment (REA): As noted above, with respect to the T-ATS Program the Company submitted a Rough Order of Magnitude estimate to the United States Navy on 1 December 2023 associated with a REA which the Company is entitled to make under the terms of the contract. Management have assessed the submitted ROM with an estimate made with respect to the amount of the REA that the Company expects to recover being incorporated into the calculation of the onerous loss as at 31 December 2023. Management will continue to assess the quantum of the REA that is deemed probable of recovery, and consequently of the benefits expected to arise. As discussions between the Company and the United States Navy progress the ultimate amount that may be recovered under the REA may increase or decrease compared to the amounts assumed as being probable of recovery as at 31 December 2023.

Reasonably possible changes to key assumptions: Actual costs and cash outflows can materially differ from the current estimate, positively or negatively, as a result of inflationary cost increases, supply chain challenges, labour efficiencies, design and/or specification changes structural complexities, and also where applicable, the ultimate amount recoverable under any REA claim.

Sensitivity analysis performed: The impact to the onerous contract provision of reasonably possible changes in the labour hours, materials costs, discount rates and amounts ultimately recoverable under any REA claim (where applicable) have been displayed in the sensitivity table below.

1. T-ATS Program

Concept	% Change	Impact on Provision	
		$,000	$,000
		+	-
Labour Hours	10%	29,991	(29,877)
Materials	5%	9,385	(9,352)
Discount	1%	(2,012)	2,085
REA	10%	(7,426)	7,426

2. AFDM Program

Concept	% Change	Impact on Provision	
		$,000	$,000
		+	-
Labour Hours	10%	6,888	(6,855)
Materials	5%	3,127	(3,094)
Discount	1%	(161)	165

Note 11 Corporate investigations (Contingent liability)

As described in previous annual and half year reports and ASX announcements, the Company resolved civil legal proceedings with ASIC in October 2022. The Group continues to engage with the US Department of Justice (DOJ) and the Securities and Exchange Commission (SEC) regarding their respective investigations into alleged fraudulent activities by former Austal USA personnel during 2013 – 2016 concerning Austal's Littoral Combat Ship (LCS) program.

On 31 March and 1 April 2023 respectively the DOJ and SEC commenced formal proceedings against three former-employees of Austal USA.

According to the DOJ allegation, the 3 former employees:

"…agreed and schemed to make and cause others to make false and misleading statements about Austal USA's financial performance on the LCS program and Austal USA's overall financial condition to defraud Austal Limited's shareholders and the investing public."

The DOJ claims that the purpose of the scheme to defraud was:

"(a) to maintain and increase the share price of Austal Limited's stock; and (b) to unjustly enrich [the 3 former employees] and others through the continued receipt of compensation, stock and other benefits."

As a result, Austal Limited's financial reporting overstated progress on the LCS contract. Upon becoming aware of the overstatement, it was corrected by the Company in July 2016.

In addition, the SEC's indictment of the 3 individuals includes an allegation that the 3 former employees *"aided and abetted Austal's misconduct by knowingly or severely recklessly providing substantial assistance to Austal's violations of the Exchange Act"*. The sections of the Exchange Act referred to in the SEC indictment prohibit individuals and companies that issue securities in the USA from engaging in fraudulent or deliberately misleading behaviour.

While the SEC's complaint and the DOJ's indictment are each focused on the conduct of those employees, the indictment documents also include reference to Austal USA and Austal Limited – in particular it is noted that the SEC complaint includes the above claim that the three former-employees aided and abetted Austal's breach of the Exchange Act. No indictments or charges have been made against either Austal Limited or Austal USA, however under US law, an employer may be prosecuted for the criminal acts of its employees and agents and as a result the group is engaging with both the DOJ and the SEC to fully understand the nature of any potential proceedings against either company.

As part of this process, the Group has and will continue to cooperate with both regulators in their proceedings against the former employees. This has to date included the provision of many thousands of documents, volunteering personnel for interviews and other responses to informal requests for information, and the presentation of specific material sought principally by the DOJ to assist their investigations.

In addition to cooperating to the fullest extent practicable, the Company has undertaken, and continues, a substantial overhaul of its internal compliance framework, particularly at Austal USA. This has involved the appointment of recognised leaders in US compliance to reshape and enhance the Company's compliance programs, the introduction of substantial new practices and processes, and the appointment of dedicated and qualified full time compliance professionals as part of Austal USA's senior leadership team.

The Group is confident that the significant steps it has taken in enhancing its compliance framework and its ongoing cooperation with both regulators will be taken into account in determining any potential consequences arising from matters identified by the investigation in the US, as well as ensuring such circumstances do not happen again.

Nevertheless, the Company is seeking to negotiate a resolution with the US authorities in order to avoid litigation if it is practicable to do so. Austal has engaged experienced US legal counsel and other advisers to assist in presenting the Company's position to the DOJ and SEC. In light of Austal's significance as a proven and experienced shipbuilder in the US and Australian defence environments, the Company is also seeking additional governmental support to ensure any resolution reached with DOJ and SEC is acceptable not only to the Company and regulators, but also to Austal's key customers – the United States and Australian Departments of Defence.

Although no formal proceedings have been commenced against Austal Limited or Austal USA by either the DOJ or SEC, negotiation of a non-litigated outcome is likely to involve some compromise and the Company considers that a financial penalty (which may be substantial – up to tens of millions of dollars - and may include or be in addition to a requirement for restitution of losses that shareholders are deemed to have sustained) is likely to be imposed by DOJ and SEC. It is not currently possible to reliably estimate the magnitude of any potential financial penalty because a number of factors which could impact this remain unresolved at this stage. These include, but are not limited to:

- uncertainty in relation to the application of US sentencing guidelines in the context of the current informal discussions, which allow for a broad range of potential outcomes based on information provided by the Company; and
- the wide range of potential discounts available to the Company under various applicable US guidelines.

In addition to a financial penalty, any negotiated outcome is likely to include some of the following elements, although again it is not possible at this stage to confirm how they will apply:

- a plea of guilty by one or more group companies to alleged offences – or alternatively agreement to a deferred prosecution agreement or non-prosecution agreement; and
- the installation of a 'monitor' within the organisation (at the company's cost) to oversee and ensure compliance measures are adhered to, and reporting back to the DOJ on same.

If a negotiated outcome cannot be reached, it is still possible that the US regulatory investigations could lead to formal civil or criminal proceedings against the Company, resulting in the application of penalties, damages, and/or possibly suspension or debarment from future US Government contracts.

Given the range of potential remedies and outcomes, combined with the fact that the matter is still under discussion with regulators, the Company cannot predict whether a settlement can be achieved, the outcome of any potential litigation if there is no settlement, or the length of time necessary to conclude this matter. Because the outcome of the investigation and related settlement discussions remain uncertain, the Company cannot, at this time, reliably estimate any loss that may result from either a settlement or litigation of this matter. The Company also notes that financial penalties in the USA can often be materially higher than those in Australia and so while the Company continues to seek a resolution that minimises any financial impact, a significant financial penalty is possible. As a result of the factors noted above, the Group and its advisers, are currently not able to reliably estimate the potential magnitude of any financial fines, penalties or other adverse outcomes at this stage. Any of these potential outcomes could have a material effect on the Group's consolidated financial position, results of operations, or cash flows.

A $2.5 million (FY2023: $2.5 million) provision has been recorded based on the best estimate of the probable incremental professional services costs relating to this matter. It is possible that this provision could change depending on the outcome of the Group's ongoing discussions with the relevant US regulatory authorities. In light of uncertainty around the potential outcome, the Group has had to apply significant judgement when considering whether, and how much, to provide for costs. As a result of the high level of estimation uncertainty, the provision could change substantially over time as new facts emerge and the investigations progress.

Note 12 Contingencies

The Group occasionally receives claims and writs for damages and other matters arising from its operations in the course of its normal business. The Group entities may also have potential financial liabilities that could arise from historical commercial contracts. No material losses are anticipated in respect of any of those contingencies.

A specific provision is made where it is deemed appropriate in the opinion of the directors, otherwise the directors deem such matters are either without merit or of such kind or involve such amounts that would not have a material adverse effect on the results or financial position of Austal if disposed of unfavourably.

Note 13 Events after the reporting date

i Dividend proposed

No interim dividend per ordinary share has been declared for H1 FY2024 post 31 December 2023.

ii Other

The Directors are not aware of any other significant events since the reporting date.

Directors' declaration

I state in accordance with a resolution of the Directors of Austal Limited, that:

In the opinion of the Directors:

- The financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
- Giving a true and fair view of the consolidated entity's financial position at 31 December 2023 and of its performance for the half-year ended on that date; and
- Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

In the opinion of the Directors, there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable at the date of this declaration.

On behalf of the Board

John Rothwell

Chairman

23 February 2024

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Independent Auditor's Review Report to the members of Austal Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Austal Limited (the "Company") and its subsidiaries (the "Group"), which comprises the consolidated statement of financial position as at 31 December 2023, the consolidated statement of profit and loss and other comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration as set out on pages 10 to 31.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 31 December 2023 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Half-year Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's review report.

Directors' Responsibilities for the Half-year Financial Report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Review of the Half-year Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2023 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB *134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

DELOITTE TOUCHE TOHMATSU

David Newman
Partner
Chartered Accountants
Perth, 23 February 2024

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