

**Austal Limited**  
Annual Report

**2023**



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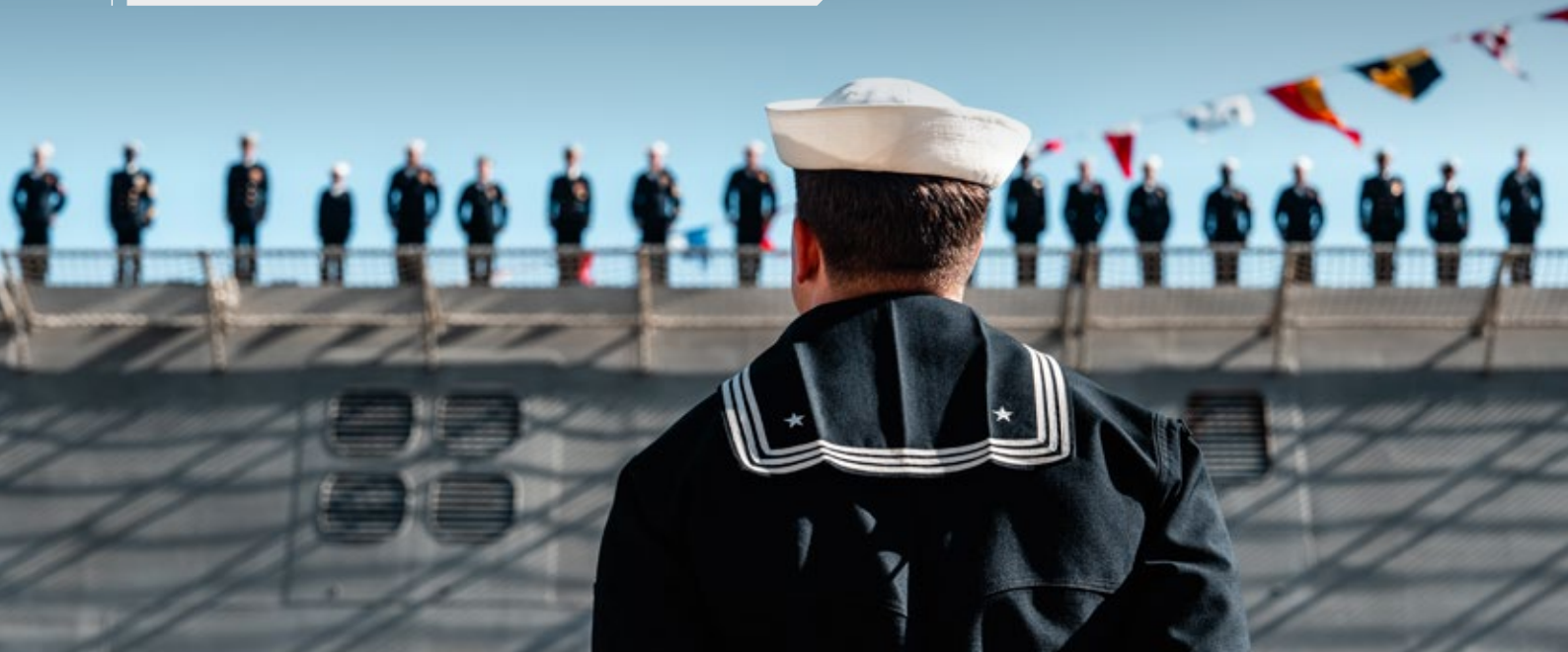
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# Company Overview



FY2023 has been a year of significant achievement and progress for Austal, while meeting the challenges of new product lines, new manufacturing and sustainment facilities and a competitive global marketplace for both defence and commercial shipbuilding.

Continuing a clear pathway of expansion, with the aim of becoming the Indo Pacific's leading naval defence prime contractor, Austal grew industrial and sovereign capability in Australia and the United States, with several new projects won and existing contracts further developed.

Worldwide, the company was awarded contracts for 11 new ships, while a total of 9 ships were delivered by Austal's shipyards in Australia, the US, Philippines and Vietnam.

In the United States, the Austal team delivered two Independence-variant Littoral Combat Ships; LCS-32 and LCS-34, and one Spearhead-class Expeditionary Fast Transport, EPF-13; the US Navy's largest semi-autonomous ship. Reflecting the great confidence the US Government has in Austal USA's steel manufacturing capabilities, the Mobile, Alabama shipyard was awarded new contracts for three more T-ATS (Towing, Salvage and Rescue) ships and up to seven T-AGOS (Ocean Surveillance) ships for the US Navy.

An historic moment was celebrated by Austal teams around the world when the USS Canberra (LCS 30) was commissioned in Sydney, Australia in July 2023. Originally designed by Austal Australia and constructed by Austal USA, the USS Canberra is the first US Navy ship to be commissioned outside of the United States

and is named after Australia's capital and in honour of the original HMAS Canberra that was sunk during World War II.

In Western Australia, Austal continued to exceed expectations in terms of quality, productivity and efficiency, delivering 4 Evolved Cape-class Patrol Boats for the Royal Australian Navy in FY2023. Over the past 5 years, Austal Australia has delivered 24 ships, including Evolved Cape-class and Guardian-class Patrol Boats and multiple commercial vessels, for operators around the world.

In the Philippines, Austal completed the largest (by volume) commercial ferry ever constructed by an Austal shipyard – the 115 metre 'Express 5' for Molslinjen of Denmark. The Balamban, Cebu shipyard has now delivered more than 20 ships to 12 operators in 11 countries in 10 years.

Austal Vietnam completed the construction of a 66-metre high-speed ferry, 'Apetahi Express' for repeat customer The Degage Group of French Polynesia during the financial year; the third vessel constructed at the Vung Tau shipyard since opening in 2018.

Another innovation introduced by Austal in FY2023 was the DeepMorpher™ artificial intelligence tool that is helping to optimise hull forms, quickly and efficiently. The technology is assisting and enhancing the expertise developed by the design and engineering team over 35 years, to deliver the best possible solutions for defence and commercial customers around the world.





**\$1.59B**

Revenue



**\$2.32B**

Order Book



**40**

Ships scheduled or under construction



**9**

Ships delivered



**60**

Vessels under sustainment



**4,300**

Employees

SHIPYARDS

SERVICE CENTRES AND OFFICES







# USS Canberra Commissioned in Sydney



It was a very proud moment for the Austal team, watching the Independence-variant Littoral Combat Ship, LCS-30 arrive at Sydney Harbour, led by her namesake, HMAS Canberra (L02) on the 18th July 2023.

The USS Canberra, named for Australia's capital city and in honour of the original HMAS Canberra, a Kent-class Cruiser sunk at the Battle of Savo Island in the Solomon Islands in August 1942, is the first US Navy ship to be commissioned outside of the United States of America.

The Austal Australia designed and Austal USA built ship is the second USS Canberra to be so named, following President Roosevelt's direction to commission a Baltimore-class Heavy Cruiser the USS Canberra in 1943, in honour of the Royal Australian Navy ship.

Today's USS Canberra is the 15th of 19 Independence-variant LCS being delivered by Austal USA to the US Navy.

The ship was officially commissioned on 22nd July 2023 at the Royal Australian Navy's Fleet Base East in Sydney, with many Australian and US dignitaries in attendance including Australia's Governor General, Deputy Prime Minister and Minister for Defence, Australia's Ambassador to the US, the Chief Of the Royal Australian Navy, US Ambassador to Australia, the US Secretary of Defence and US Chief of Naval Operations.

The USS Canberra is a great representation of not only the shipbuilding capabilities of Austal, but of the strong alliance, and enduring friendship between Australia and the United States.





*USS Canberra (LCS-30) arriving in Sydney Harbour*





## LCS Program

Austal USA continued to deliver the 19 vessel, Independence-variant Littoral Combat Ship (LCS) program in Mobile, Alabama over FY2023, handing over LCS-32 (USS Santa Barbara) and LCS-34 (USS Augusta) to the US Navy in July 2022 and May 2023 respectively.



## EPF Program

EPF-13, USNS Apalachicola, was delivered in February 2023, following successful trials of the autonomous technology that enables the ship to operate remotely and uncrewed.

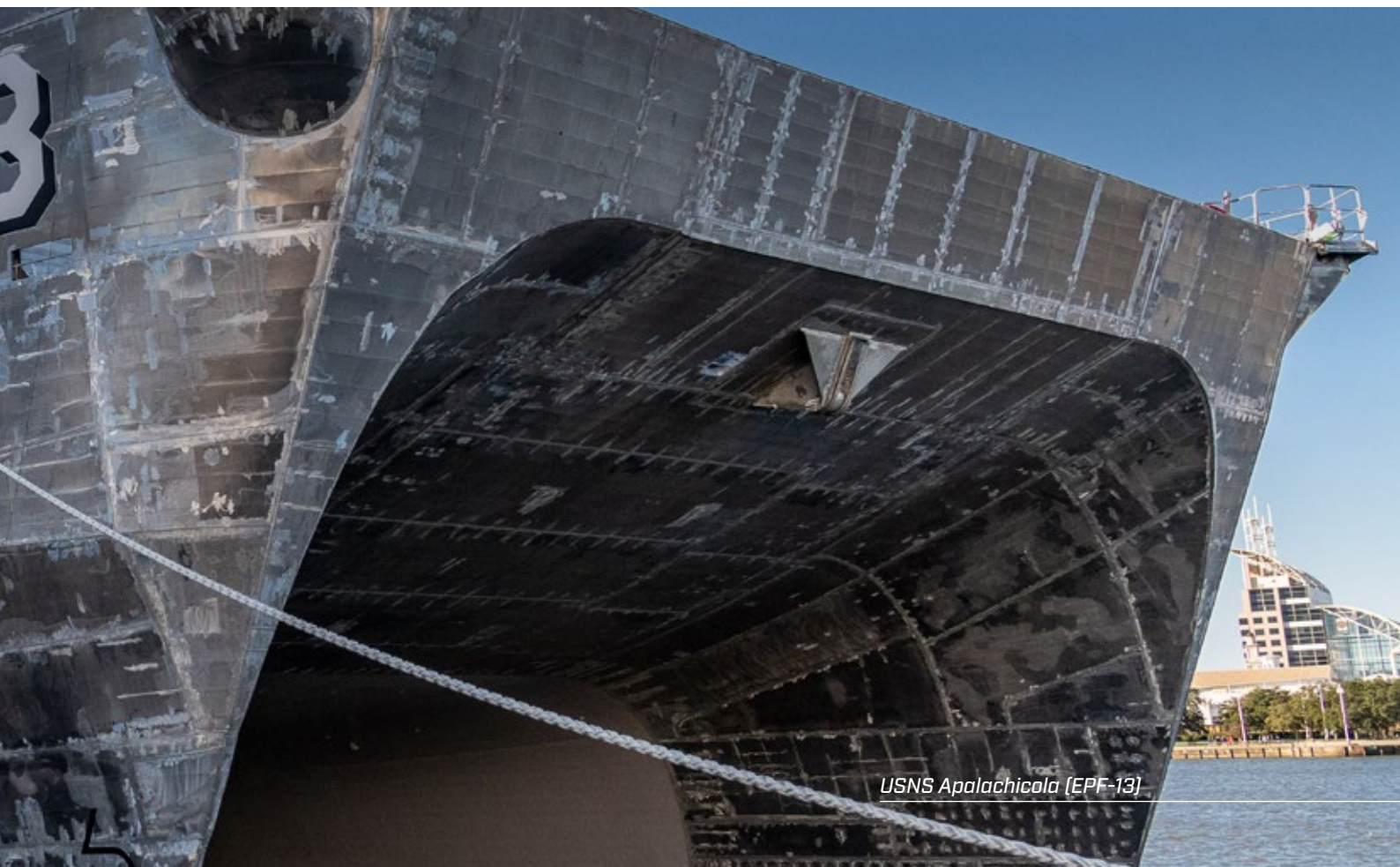
EPF-13 is the largest autonomous capable vessel operating in the US Navy.







*USS Santa Barbara (LCS-32)*



*USNS Apalachicola (EPF-13)*





# Medium Landing Ship

The US Navy's Medium Landing Ship (LSM) program, previously called the Light Amphibious Warship (LAW) program, envisions procuring a class of 18 to 35 new amphibious ships to support the US Marine Corps in theatre; moving from island to island, to fire anti-ship cruise missiles (ASCMs) and perform other missions alongside the US Navy and other military forces.

The LSMs would embark, transport, land, and subsequently re-embark Marine Corps units.

Austal USA is one of five US shipbuilders awarded a concept design study contract to develop a solution that is under consideration by the US Navy.



*Medium Landing Ship (LSM)*





## Expeditionary Medical Ship



The Expeditionary Medical Ship (EMS) is a cost-effective design for a dedicated high-speed medical ship, optimised to provide hospital-level medical care in support of the US Navy's Distributed Maritime Operations (DMO).

The EMS will feature a full range of medical capabilities needed to support operating forces including triage/critical care, operating rooms, medical laboratory, radiology capability, blood bank,

dental, mental health, OB-GYN and primary care, rapid stabilization and follow-on evacuation of multiple casualties, and combat search and rescue including recovery at sea.

Austal USA was awarded an 'undefinitised contract action' (UCA) with the US Navy to resolve the detail design for three fully-funded EMS, valued at over US\$900m.





## Towing, Salvage and Rescue (T-ATS)



In July 2022, Austal USA commenced construction of the first of five Towing, Salvage and Rescue (T-ATS) ships for the US Navy, from the steel manufacturing facilities opened earlier in the year. The Navajo-class T-ATS ships provide ocean-going tug, salvage,

and rescue capabilities to support US fleet operations and missions including oil spill response, humanitarian assistance, and wide area search and surveillance.

## Ocean Surveillance (T-AGOS)



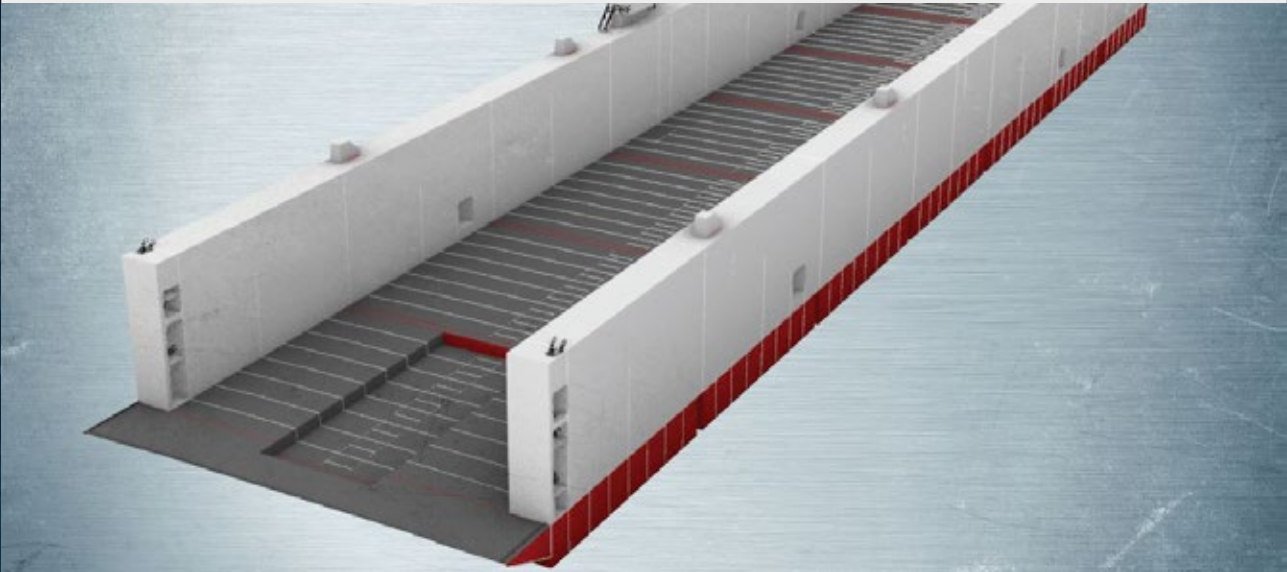
Austal USA was awarded a contract for the design and construction of up to seven steel-hulled Ocean Surveillance T-AGOS ships, worth US\$3.19B, in May 2023.

T-AGOS ships, operated by US Military Sealift Command (MSC), support the anti-submarine

warfare (ASW) mission of the commanders of the Atlantic and Pacific Fleets by providing a platform capable of passive and active anti-submarine acoustic surveillance.



## Auxiliary Floating Dock Medium (AFD-M)



In June 2023 Austal USA began construction on the US Navy's Auxiliary Floating Dock Medium (AFD-M). The AFD-M is a "Rennie"-type floating dry dock that has continuous wing walls and several sectional pontoons to provide the stability and displacement required to lift and submerge

vessels from the water, using buoyancy. The vessel design incorporates several features to improve operability and maintainability, based on Austal USA's experience from owning, operating and maintaining a similar dry dock at the company's Mobile, Alabama ship repair facility.

## Saildrone Surveyor



Austal USA and Saildrone Inc announced a strategic partnership in August 2022, to build a fleet of cutting-edge, autonomous uncrewed surface vehicles. The new partnership combines Saildrone's uncrewed surface vehicle technology with Austal USA's advanced manufacturing capabilities and provides the US Navy and other government customers with a cutting-edge solution

for maritime domain awareness, hydrographic survey, and other missions requiring persistent wide area coverage. Austal USA will construct the 20 metre Saildrone Surveyor, designed specifically for deep ocean mapping and Intelligence, Surveillance and Reconnaissance (ISR) applications, both above and below the surface.





# Submarine Command Modules and Aircraft Carrier Elevators



*Gerald R. Ford-class aircraft carrier*

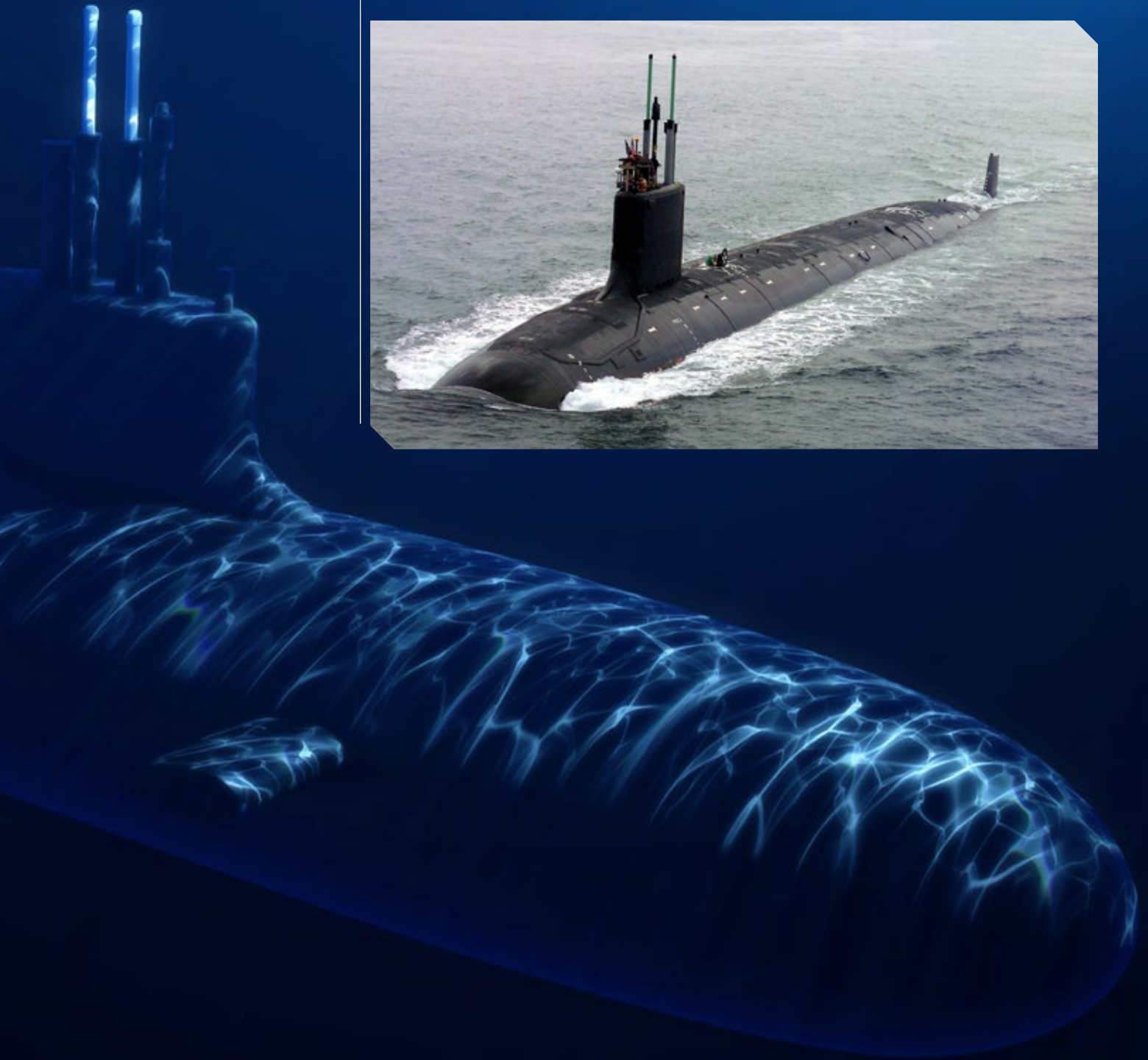
In a strategic partnership with General Dynamics Electric Boat (GDEB), and following training that commenced in April 2022, Austal USA has commenced the construction and outfitting of Command and Control Systems Modules (CCSM) and Electronic Deck Modules (EDM) for the US Navy's Virginia and Columbia-class nuclear powered submarine programs.

Utilising Austal USA's lean manufacturing techniques and modern steel production line facilities, initial outfitting work commenced in January 2023 and will support a gradual ramp up to full fabrication and outfitting of CCSMs and EDMs across both submarine classes from 2026.

Also in FY2023, Austal USA commenced construction on the aluminum aircraft elevators for two U.S. Navy Gerald R. Ford-class aircraft carriers, Enterprise (CVN 80) and Doris Miller (CVN 81), currently under construction at Huntington Ingalls Industries' Newport News Shipbuilding division.

Austal USA will fabricate two shipsets of aluminium elevators; three elevators per ship at the state-of-the-art module manufacturing facility (MMF) in Mobile, Alabama. The aircraft elevators are scheduled to be completed in October 2024 and October 2025, respectively.





*Virginia-class nuclear-powered fast attack submarine*





Austral Australia

# Evolved Cape and Guardian Class Programs



Austral Australia maintained industry-leading productivity, efficiency and quality on both the Evolved Cape-class and Guardian-class Patrol Boat Projects in FY2023, with 4 x 58 metre Evolved Cape-class Patrol Boats delivered to the Royal Australian Navy in 12 months and system optimisation engineering packages developed and applied to Guardian-class Patrol Boats for the Commonwealth of Australia.

At 30 June 2023, Austral Australia has delivered 5 of the 8 Evolved Cape-class Patrol Boats that were initially ordered in May 2020; the project is on track for completion in CY2024. Meanwhile, 16 of the 22 Guardian-class Patrol Boats ordered since May 2016 have been delivered to the Commonwealth of Australia, under the Pacific Patrol Boat Replacement Project (SEA3036-1). All the vessels will be gifted by the Australian Government to 12 Pacific Island nations and Timor-Leste, as part of the Pacific Maritime Security Program.

In CY2023, Austral Australia is celebrating 25 years of supplying patrol boats to the Commonwealth of Australia, through the delivery of 52 vessels to date; comprising Bay-class, Armidale-class, Cape-class, Guardian-class and Evolved Cape-class Patrol Boats to the Australian Border Force (previously Australian Customs Service), the Royal Australian Navy and our Pacific Island neighbours.





*Guardian-class Patrol Boat 'VOEA Ngahau Siliva'*





# San Diego Service and Support

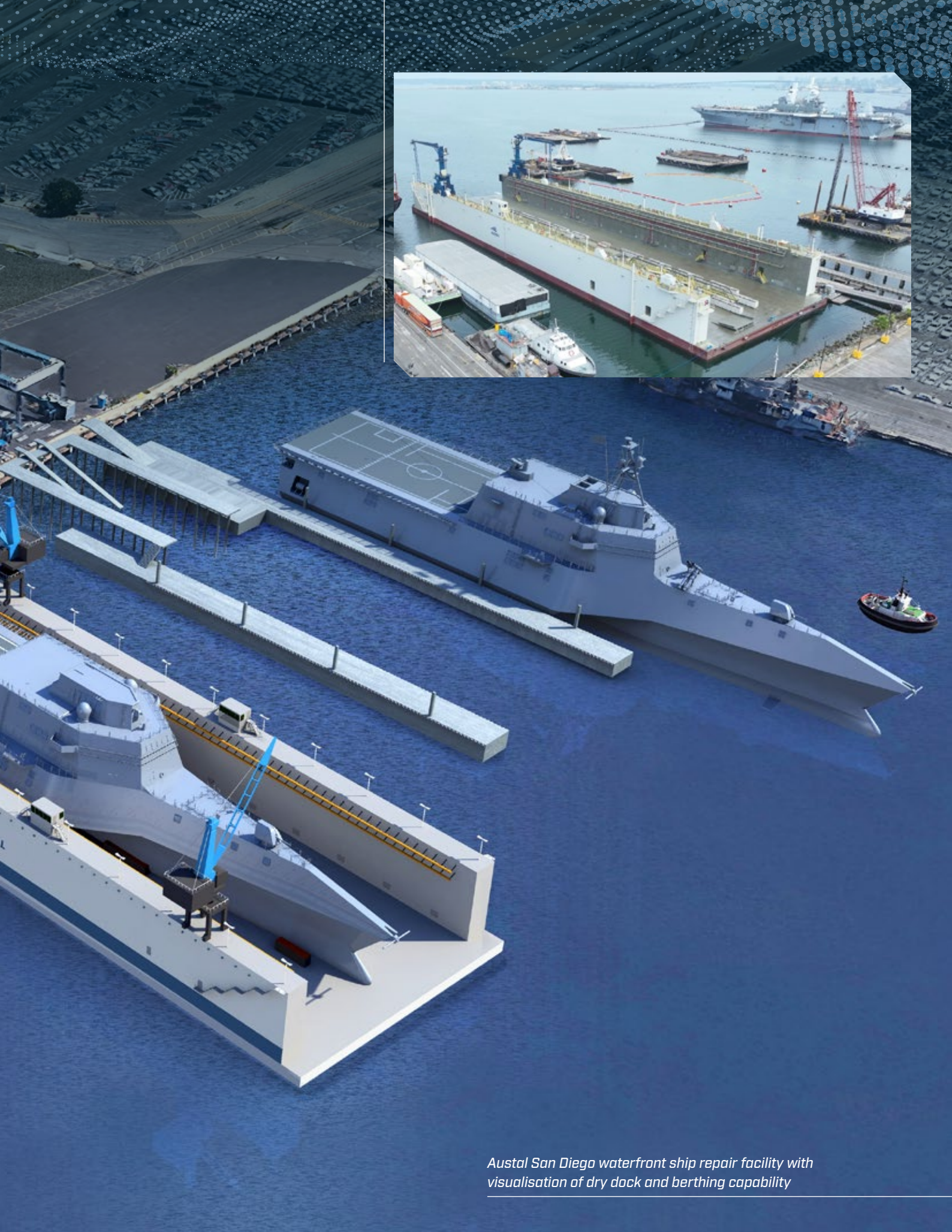


In February 2023, Austal USA celebrated the opening of the company's new San Diego waterfront ship repair facility, located adjacent to US Naval Base San Diego. The facility can provide full-service repair, maintenance and modernization services for small surface combatants (such as the Littoral Combat Ship), unmanned and autonomous vessels, and auxiliary ships.

Austal USA has invested over \$100 million in upgrading the facility, including a new floating dry dock that allows more extensive depot-level maintenance on larger ships. The 15-acre site provides 210 metres of improved San Diego Bay shoreline; approx 7,500 square metres of covered working space, and has been equipped with new pier fenders and moorings, modernized shore power conversions, and enhanced security.







*Austal San Diego waterfront ship repair facility with visualisation of dry dock and berthing capability*





# Largest ever high-speed catamaran constructed by Austal



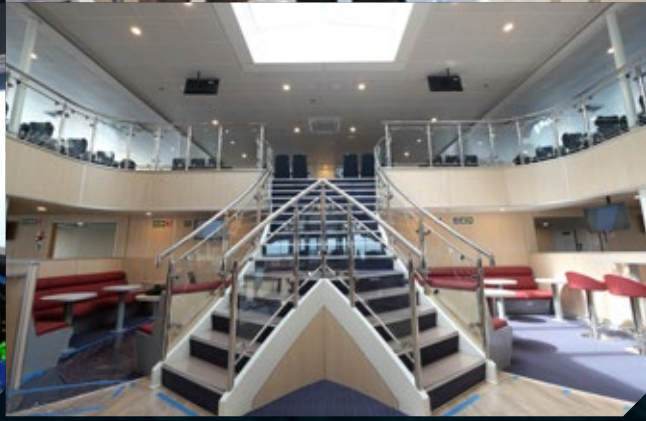
Austal Philippines delivered the 115-metre, high-speed vehicle-passenger ferry Express 5, to repeat customer Molsinjen of Denmark, in March 2023.

The high-speed catamaran is the largest ferry (by volume) constructed by any Austal shipyard, in the company's 35-year history.

During sea trials, the vessel achieved a top speed of 40 knots, and bettered Class quality standards for noise and vibration in the passenger decks, with a quiet and smooth ride.

Express 5, the 21st ship delivered to an overseas operator by Austal Philippines since 2012, has the capacity for 1,610 passengers, space for 450 cars over 2 vehicle decks and an operating service speed of 37 knots. It is powered by an LNG-capable power plant that offers a powerful yet economic and environmentally friendly solution.









## Austal Vietnam delivers third ship since opening in 2018



Austal Vietnam delivered a new high-speed catamaran to repeat customer The Degage Group of French Polynesia in June 2023.

The 66 metre 'Apetahi Express' is the sixth commercial ferry designed and constructed for The Degage Group by Austal; and the third ship delivered by Austal Vietnam since opening in 2018.

'Apetahi Express' was customised by Austal's Australian and Vietnamese design

and engineering teams to meet the exacting demands of inter-island transport, with an emphasis on reducing CO2 emissions and improving fuel efficiency.

By optimising the aluminium hull design, Austal achieved a significant reduction in resistance that not only lowers fuel consumption for the operator but also improves seakeeping and delivers a more comfortable ride for passengers.

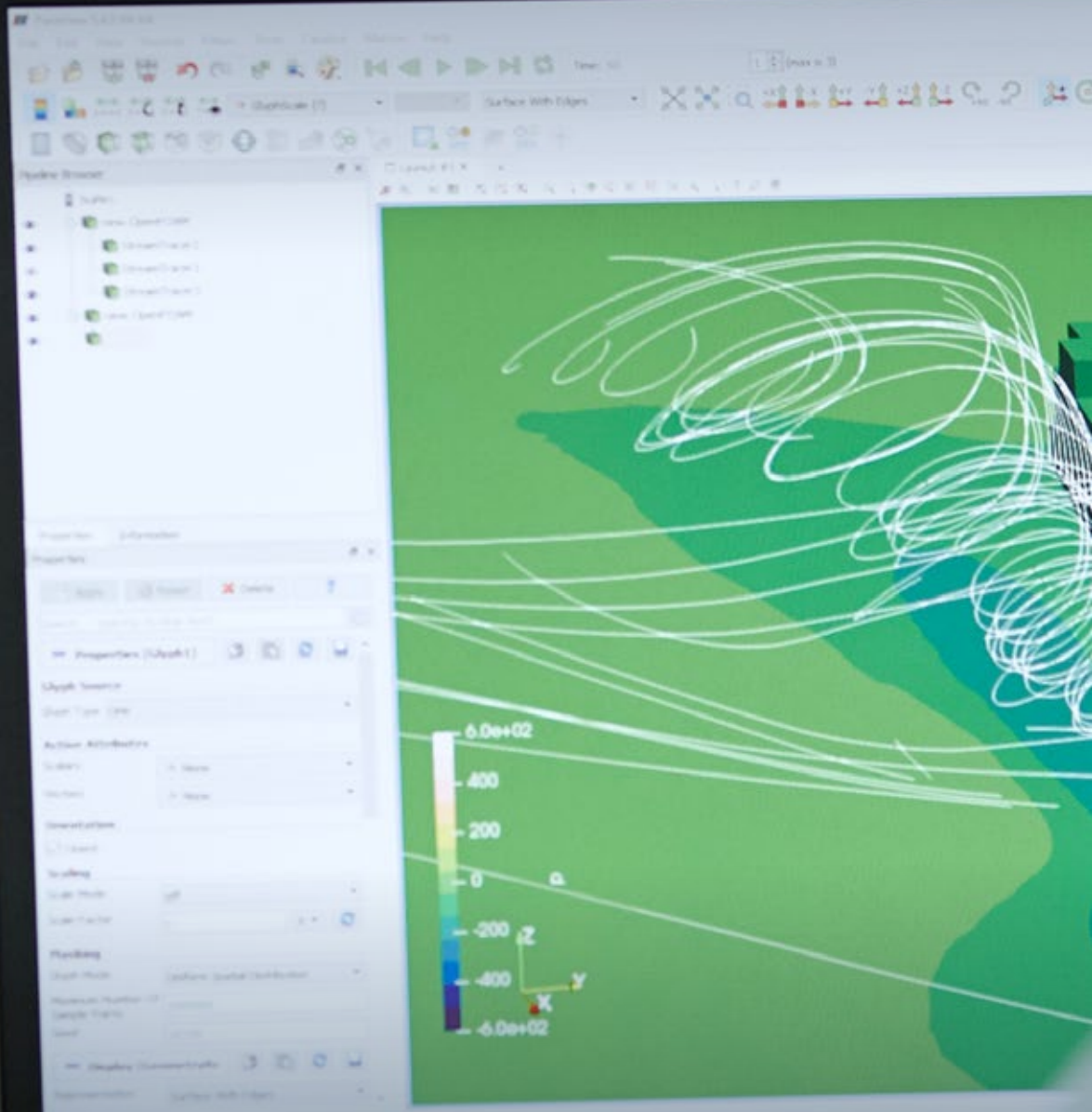








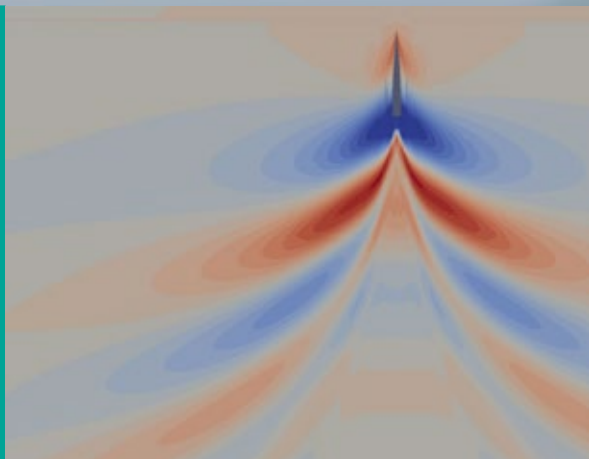
# Using Artificial Intelligence for Hull Optimisation



Austral's new artificial intelligence (AI) toolset, DeepMorpher, is helping the company to find world-leading solutions for commercial and defence customers.

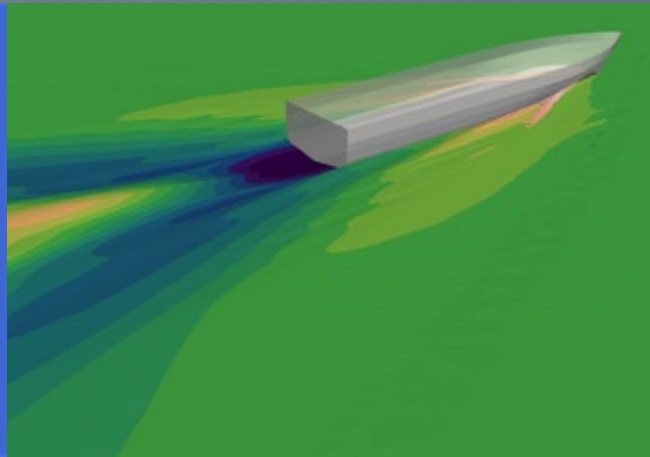
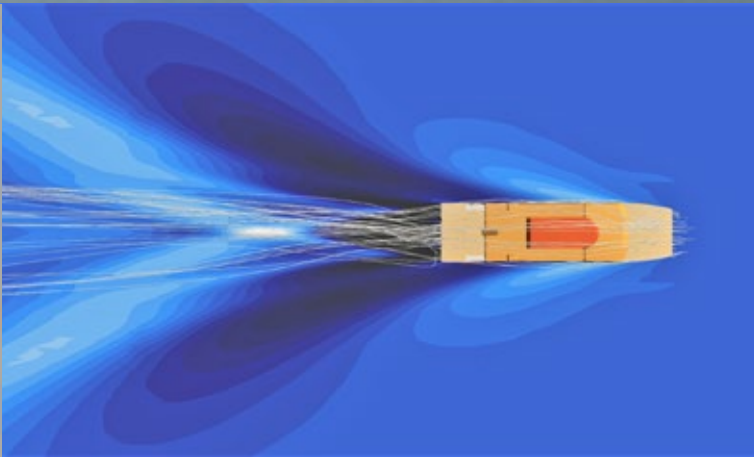
By enabling the efficient exploration of a broader design space, DeepMorpher significantly reduces the resources and time required to undertake complex hull optimisation routines.

This provides Austral with the opportunity to work collaboratively with customers to create valuable, low-risk solutions that meet specific operational requirements.





# DeepMorpher







Austral Australia

## Business Transformation - Project Jupiter completion



Austral Australia substantially completed the business transforming ‘Project Jupiter’ in FY2023; comprising the rollout of new systems and applications that have simplified the business process environment, improved productivity, and enhanced data flow throughout the enterprise – creating a culture of collaboration and care.

Going live in March 2023, the new IFS Enterprise Resource Planning (ERP) system is streamlining a variety of financial, supply chain and other business processes, while a new Product Lifecycle Management System (PLM) is transforming the way we manage a vessel – from concept into production and maintenance – and ultimately allowing a “digital twin” of any vessel we build to be developed. A new 3D CAD system ShipConstructor was also introduced that enhances the development and sharing of 3D vessel models for production.







jupiter

Transforming the way we work



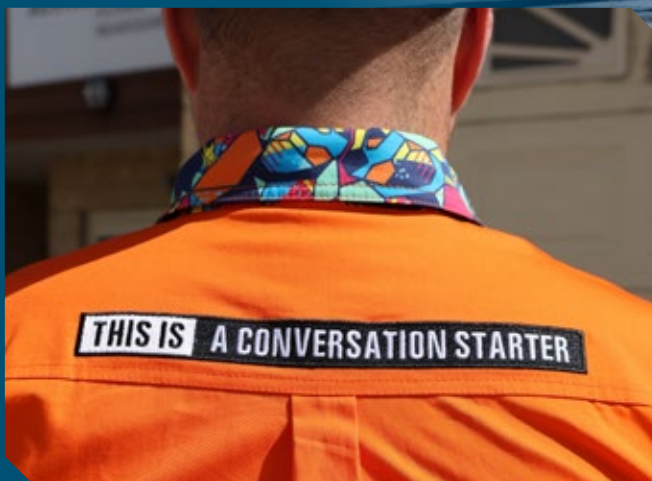


## We're Listening

Austal Australia has introduced a distinctive way of identifying managers, supervisors and team members who have completed mental health support training and are available for conversations on personal health and well-being.

Sporting brightly coloured high-vis shirts, and helmet stickers saying "I am listening", just under 100 team members, across all Australian locations have now completed mental health awareness training that is enabling valuable conversations in the workplace.

The well-received initiative is helping to foster a culture of support, by raising awareness of the importance of mental health in the workplace, highlighting the professional support available through the Employee Assistance Program (EAP) and enabling a greater number of effective conversations at the team level, reducing the reliance on traditional people and culture processes.









## Chairman's report



### Financial Year Highlights

- The Group's order book has grown to \$11.6 billion, on the basis all contract option agreements are exercised.
- The commissioning of the new steel facilities in the USA, with 2 major programs secured - OPC and T-AGOS.
- The diversification we added to the US portfolio produced orders in autonomy, submarine modules and additive manufacturing.
- Started the transition from the LCS program and secured a very significant future order book to deliver long-term value to investors.
- The arrival of our floating dock "Independence" in San Diego to further enhance growth of the USA Support business.
- A challenging year for EBIT because of the loss provision on T-ATS. All T-ATS options have now been exercised.

I am pleased to present the FY2023 Annual Report to shareholders on behalf of the Board of Austal Limited.

Austal had an excellent year in terms of growing its order book in the US through contract wins and growing our Support business. This was unfortunately overshadowed by the provision taken on the Towing, Salvage, and Rescue ships (T-ATS) program, but I firmly believe that the unique circumstances of this program will be ringfenced and the business has a tremendous opportunity ahead. The contract wins are a testament to Austal's ability to adapt and expand its operations in an increasingly volatile global environment, whilst delivering on our commitments across our shipbuilding programs and support services.

Again, all our shipyards - USA, Australia, Philippines, and Vietnam produced great results with their deliveries this year. Austal has always maintained a strong customer relationship focus, and our customers have worked constructively with us to progress construction programs and the delivery of vessels. The global transition towards zero

emissions continues to impact the current volume of ferry orders, albeit with some signs of the market improving.

The pinnacle of the year, perhaps my career, was attending the commissioning of the *USS Canberra* in Sydney. This was the first time the US Navy has ever commissioned a warship outside of the United States and is a testament to the enduring relationship between the US and Australia, and indeed the part that Austal plays in it.

### Strategic initiatives

Austal continues to progress its strategy towards our 2050 vision. Our focus remains on long-term, sustainable, and profitable growth. This will be across shipbuilding, support, and systems, with a strong aspiration to become the Sovereign Defence Prime in Australia through organic and inorganic growth. We also aim to grow our position in US shipbuilding, as we efficiently deliver the programs we have won in tandem with continuing to invest in, and expand, our shipyard as we win more work.

The pivot to steel is already yielding significant future opportunities through program wins in the USA beyond the initial T-ATS contract. These major steel wins include the floating dry dock (AFDM), Offshore Patrol Cutters (OPC), and most recently T-AGOS. Steel capability positions the business to bid for a greater proportion of available ship construction work than an aluminium-only yard can tender for, and that is becoming clear with the current awards. The future opportunity with submarine modules is also substantial. We have commenced with our first on the Virginia-class and expect a Colombia-class opportunity to follow shortly.

Our robust balance sheet underpins our continued investment in the Company and its facilities. To this end, it was exciting to see the recent arrival of the new floating dock "Independence" in San Diego.

Our investment in systems is yielding some small, but strategically important, wins, with our Lifecycle Upkeep Sustainment Intelligence (LUSI) software on trial on the Cape-class vessels with the Royal Australian Navy. The capability the upgraded MarineLink software provides in terms of efficient operation of vessels will contribute to lower emissions and increased efficiencies in the commercial sector.

### Risks & opportunities

The T-AGOS win was undoubtedly the biggest achievement of the year as it stabilises Austal's long-term future in the USA and validates the decision to invest in steel. A legal challenge remains on OPC but we have been given the green-light to commence design and procurement of long lead time materials and the relationship with the US Coast Guard has kicked off to a great start.



We continue to support US Coast Guard as they go through the legal challenge.

Austal is confident that both the integrity of the solicitation process and the selection of Austal USA as the Stage II OPC shipbuilder will again be upheld.

The first steel ships on the new panel line are the T-ATS vessels. The strategic importance of this was to prove the steel production line and fine tune our processes in preparation for OPC and future large steel vessels. The other steel shipbuilding programs in the portfolio included substantial cost-escalation protections, giving us confidence that the T-ATS issues are isolated and the learnings from T-ATS will benefit the future programs.

The AFDM has just commenced and adds to the throughput on our new steel panel line.

The Evolved Cape-class Program and Guardian-class Patrol Boat Program continue to progress well with multiple deliveries in the year. Our focus is firmly on what next, with encouragement from what we saw in the Defence Strategic Review output published in FY2023.

Finally, the fast ferry fleet continues to age and will need replacement. More stringent emissions regulations may drive some of this replacement and we are well placed with new product concepts, such as the Volta electric ferry. Confidence is growing in the resurgence of the commercial market as global COVID-19 restrictions lift and travel rebounds.

The pivot to steel in tandem with the expansion of our support business and increasingly diversified order book has put us in a great place in the US, with Australasia poised to follow suit.

## Board update

I was pleased to announce the appointment of Lee Goddard as a Non-Executive Director of the Company on 1 January this year. Mr Goddard is currently the Chief Executive Officer of the Australian Missile Corporation and a Non-Executive Director of the Commonwealth Superannuation Corporation. Mr Goddard continues to serve as a Royal Australian Navy active reserve officer (rank Rear Admiral) following 34 years full time service up until January 2021.

Lee's breadth and depth of naval defence industry expertise, in addition to his extensive international defence industry networks, aligns perfectly with Austal's strategic direction.

His appointment follows the resignation of Giles Everist as Non-Executive Director on 9 December 2022, and I would like to thank Giles for all that he has done during his time with us.

It has been a challenging time for the Board and Senior leaders, facing challenges such as legacy

regulatory investigations, and management changes. The T-AGOS win in the USA provides even more certainty to the Company, and coupled with the other competitively won steel programs, demonstrates we have invested wisely in the latest technology for steel ship construction and should be very competitive going forward. The transition from aluminium to steel and the growth in the number of programs will require focus from the teams as they grow.

CEO Paddy Gregg continues to lead the revitalisation of our corporate strategy, while closely managing the Company's operations. The implementation of that strategy and an improved focus on customer relationships means that we have clear objectives. I remain optimistic about the future, driven by a record pipeline of work for the US operation, albeit we will have to navigate some challenges in the years coming as we begin the steel programs, which is part and parcel of commencing major new programs.

The Board is improving internal compliance and reporting practices between the USA operations and Austal's corporate headquarters; we will continue to work hard to implement these improvements.

## HSEQ

As always, our prime focus is ensuring that our employees go home safely every day. We continue to demonstrate excellent safety performance and pursue more stringent targets each year. It was especially pleasing to see our largest site, our Mobile facility, again achieve awards for safety performance.

## ESG

Austal continues to ensure that its operations grow and evolve in a sustainable manner.

You will have seen our Environmental, Social and Governance (ESG) report last year. Our focus is to build on these initiatives with a particular focus on environmental and social risks and opportunities in the year ahead. This year, we have placed even more focus on this, and our enhanced ESG report has adopted the Global Reporting Initiative. We have now published our targets: By 2030, a 50% reduction of embodied emissions (Scope 1, 2 and 3-upstream) and by 2050 a Net Zero commitment consistent with Science-Based Targets.

Austal continues to advance research and development projects targeting improved methods to design and construct vessels with increased fuel efficiency and reduced emissions, such as battery-powered smaller ferries (Volta) and larger vessels that could be converted from diesel to greener fuels, such as LNG or ammonia. Most of the commercial opportunities we are quoting focus on reduced emissions.

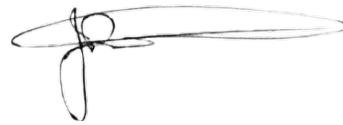


## Corporate investigations

As we have previously announced to the ASX, we resolved the civil proceedings with ASIC in October 2022 and continue to work with the US Department of Justice and US Securities and Exchange Commission regarding the allegations of fraud by three ex-employees of Austal USA and whether that may in turn impact the Company. The activities in question took place during the years leading up to and including FY2016. I look forward to its conclusion and being able to devote our entire focus on delivering our operational and growth strategy for the benefit of our customers, employees, and shareholders.

## Thank-you

On behalf of the Board, I would like to thank each and every one of our people for their adaptability and resilience during a period of unprecedented global uncertainty. The recent contract wins in the USA underpin the business for many years and provides certainty for shareholders and employees. These wins are testament to the commitment of our people during the year, and I'm confident the Australasia business is poised to follow suit. I would like to acknowledge the Austal executive team and support managers for their leadership in guiding the Company through a volatile macroeconomic period. I also want to express my appreciation to Austal's loyal shareholders.

A handwritten signature in black ink, appearing to be 'John Rothwell AO', written over a horizontal line.

John Rothwell AO  
Chairman



# Chief Executive Officer's report



## Group financial results

	2023 \$'000	2022 \$'000
Revenue	1,585,034	1,429,044
EBITDA <sup>1</sup>	54,973	165,350
EBIT <sup>2</sup>	(4,842)	120,662
NPAT <sup>3</sup>	(13,774)	79,565
EBITDA margin	3.5%	11.6%
EBIT margin	(0.3%)	8.4%
Net assets	948,818	924,285
Net cash position	49,702	115,598
Net cash flow	(60,912)	(106,786)
(Loss) / earnings per share (\$ per share)	(0.038)	0.220
Dividends per share (\$ per share)	0.070	0.080
Payout ratio	(184.2%)	36.3%

- Earnings before interest, tax, depreciation and amortisation (EBITDA). EBITDA is comprised of EBIT with depreciation and amortisation (\$59.815 million)
- Earnings before interest and tax (EBIT). EBIT is comprised of NPAT with finance income (\$1.784 million) and finance costs (\$12.456 million) added back.
- Net Profit / (loss) after tax (NPAT).

EBIT and EBITDA are non-IFRS measures.  
EBIT is used to understand segment performance.  
EBITDA is used by management to understand cash flows within the Group.  
The information is unaudited but is extracted from the audited accounts.

- Total revenue for the year increased by 10.9% to \$1,585 million in FY2023.
- FY2023 EBIT decreased by 104.0% to an EBIT loss of \$(4.8) million compared to EBIT of \$120.7 million in FY2022, driven by the T-ATS loss of \$171.2 million in FY2023.
- Austral reported a NPAT loss of \$(13.8) million in FY2023 compared to NPAT of \$79.6 million in FY2022.
- Austral delivered operating cash flow of \$86.7 million (FY2022: \$37.5 million) and

FY2023 net cash flow of \$(60.9) million (FY2022: (\$106.8) million).

- Austral has maintained a strong cash balance of \$179.2 million at 30 June 2023, despite a significant capital investment program in Mobile and San Diego, and some prepayments to suppliers to secure discounts. This demonstrates the ongoing cash generating strength of the business (30 June 2022: \$240.1 million).
- Net cash was \$49.7 million at 30 June 2023 (30 June 2022: \$115.6 million).
- A final FY2023 unfranked dividend of 3.0 cents per share was declared, adding to the 4.0 cents a share paid in April 2023 (FY2022: 8.0 cents per share, unfranked).
- Austral received \$0.5 billion of new contract awards during FY2023 to bring the order book to \$2.3 billion at 30 June 2023. If all options on these programs are exercised the order book equates to \$11.6 billion.

Austral's NPAT loss was \$(13.8) million in FY2023, a disappointing drop from the \$79.6 million recorded in the prior corresponding period (pcp), and EBITDA of \$55.0 million, down 66.8% on the pcp.

As detailed in our revised earnings guidance on 25 July 2023, Austral's earnings were negatively impacted with a further writedown on the recently commenced T-ATS program.

The cause of the writedown is multi-factorial, including changes in specification, cost inflation pressures as well as incorrect efficiency assumptions on the commissioning of our new steel production line and in constructing the first vessel.

During H2 FY2023, as originally planned in FY2021, the Company reviewed the appropriate level of contingency required for the mature LCS and EPF programs due to a number of the significant milestones reached in this period including the delivery of LCS 32 and 34 and EPF 13. As a result of this review, the remaining contingencies associated with these programs were released in H2 FY2023. Refer note 4(V)(2) in the financial statements for further information.

More detail is provided below in the Shipbuilding section of this report, however it is the most significant impact on our P&L so warrants mention from the outset.

The impact is unfortunate on numerous levels, but particularly because it has overshadowed the



contract wins Austal secured in FY2023, which have set Austal's USA operations up for success for the next 10 years, as well as our support business realising its potential with a substantial uplift in revenue and profitability.

Our focus now has to be, and is, on delivering those construction programs safely and efficiently.

Despite the profit result, Austal's strong cash position and forward outlook has enabled the Board to declare a final dividend of 3.0 cents per share, taking total dividends to 7.0 cents per share (unfranked) for FY2023.

Austal delivered 9 ships in FY2023 and maintained a strong balance sheet, while allocating considerable enhancing capital as we strengthened our strategic position in the US defence shipbuilding sector. This year has been exceptional in terms of contract wins in the US business and puts significant future stability back into the business. Clearly the investment, in partnership with our major customer, in adding a steel production line to our aluminium capability has been money well spent. We will continue to invest in the business as we drive long term profitable growth.

Pleasingly, improved efficiencies and risk mitigation in the USA on the mature LCS and EPF programs were reflected in an accelerated release of contingency reserves during the year.

Importantly, we continue to translate the Company's earnings into strong operating cash flow, though total cash flow was impacted by significant enhancing expenditure and cash outlays for materials on new programs.

We made significant investments in the USA with both completion of the San Diego service centre investment and the arrival of the floating dock, enabling future revenue growth in line with our business case.

In Australia, we delivered 4 defence vessels, of the Evolved Cape-class Patrol Boats (ECCPB) to the Royal Australian Navy. If we look back over the last 5 years we have delivered 25 ships from the Australian business which is very impressive considering the challenges of COVID-19. This demonstrates the capability we have in the workforce and stands us in good stead for future programs as we await the outcomes of the Independent Analysis into the Navy's Surface Combatant Fleet review due in October 2023.

The Defence Strategic Review was well received and encouraging on several items, including clarity around the build of Tier 2 ships in Western Australia, an immediate need for medium and heavy landing craft, and a recognition of the importance of continuous naval shipbuilding.

These are all indicators of a positive outlook for shipbuilding opportunities in Henderson.

Austal USA continued its success in delivering the US Navy's LCS program, with the commissioning of LCS 30, the *USS Canberra*. This was a very special event that saw the US Navy commission a warship outside of the United States for the first time in its history.

It was a truly amazing experience to be part of the ceremony and witness history being made, a history that Austal's ship designers and builders made possible. It also reinforced the great bond between Australia and the United States and signifies exciting opportunities through AUKUS. Autonomy is a pillar of AUKUS and with the progress we have achieved on EPF 13, Overload Unmanned Service Vessel (OUSV) 3 and Saildrone, we are well placed for this to become another future revenue stream both in the US and Australia.

Another exciting development this year was the award of submarine module build work in Alabama. This commenced on Virginia-class modules, the same submarine class that Australia will be buying from the US and will progress to the larger Colombia-class. This will likely be a very important long term revenue stream for the US shipbuilding business.

Austal Philippines delivered the Express 5 to Molslinjen, the largest vessel, by volume, we have ever built. Also in the Philippines, the repair business generated revenue through use of our floating dock, the Lewek Hercules, which is another potential future revenue stream for that business. More recently, it was a wonderful opportunity to meet Philippines President Marcos and talk him through our capabilities in Balamban and how we could support their needs for Coast Guard ships.

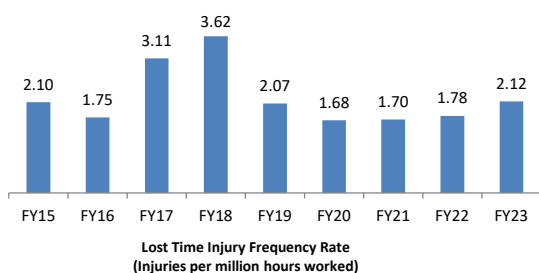
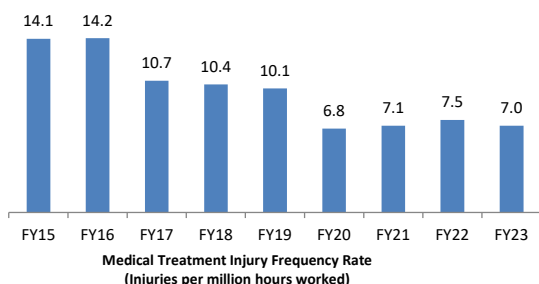
## People & Safety

Ensuring our people go home safely at the end of each day is our number one focus.

Austal continues to demonstrate effective and robust health and safety management throughout our global shipyard and service centres and continues to be recognised in meeting industry incidence benchmarks.



The following tables illustrate Health and Safety incidence performance against the pcp.



Austal recorded a reduction in Medical Treatment Injury Frequency Rate this reporting period, whilst Lost Time Injury Frequency Rate unfortunately increased.

We are reviewing the contributing factors to the LTIFR and will respond accordingly.

Combined, Lost Time and Medical Treatments incidences make a total recordable Injury Frequency Rate of 9.12.

Austal continues to achieve accolades throughout its operations and acknowledges and celebrates its successes, such as receiving 2 national safety awards from the Shipbuilder’s Council in America (Excellence in Safety and Improvement in Safety) this reporting period.

Further details on Health, Safety and Environmental initiatives at Austal can be found in Austal’s Environmental, Social and Governance (ESG) Report FY2023.

## USA

### Strategy

Austal USA remains the core driver of Austal’s financial performance, constituting more than three-quarters of the Company’s revenue in FY2023. This year was dominated by the April 2023 T-AGOS contract win which including construction options is valued at around \$3.2 billion. The addition of the T-AGOS program takes Austal’s order book to \$11.6 billion if all options on the current contracts are exercised - a record for the Company.

There has been considerable focus and success on future growth opportunities including in the

emerging autonomous vessel market and non-prime module projects, which leverage Austal’s core shipbuilding, support, and advanced technologies expertise. Austal has entered into agreements for a number of strategic programs, with a potential combined value of approximately US\$75 million (approximately A\$108 million), where some early stage contracts provide a pathway for potential, future awards. These agreements include:

- An ‘undefinitised contract action’ (UCA) with the US Navy to resolve the detail design for three fully funded Emergency Medical Ships (EMS) – with these ships to be valued at more than US\$900m
- Partnership with L3Harris Technologies to construct and modify autonomous capabilities in support of the US Navy’s Overlord Unmanned Surface Vessel (USV) Program
- Concept design for the US Navy’s Large Unmanned Surface Vessels (LUSV), involving a prototype of an unmanned ship that is capable of autonomous operation
- Appointment as the exclusive manufacturer of Saildrone Inc.’s wind and solar-powered Surveyor USV, with discussions continuing as to the number of vehicles to be produced
- Partnership with General Dynamics Electric Boat to train Austal personnel in the manufacture of Command and Control Systems Modules and Electronic Deck Modules for US Navy nuclear submarines
- A contract with Newport News Shipbuilding in the USA to fabricate aluminium aircraft elevators for two US Navy Ford-class aircraft carriers being constructed by Newport News Shipbuilding

The steel facility is in full production and the significant contract awards to utilise that facility are:

- The Towing, Salvage and Rescue Ships (T-ATS) program with all 5 vessel options exercised.
- The Auxiliary Floating Dock Medium (AFDM) for the US Navy is just commencing production.
- Undoubtedly the highlight for last year, the Offshore Patrol Cutter (OPC) program for the US Coastguard. This program is for up to 11 ships at a potential value of US\$3.3 billion, and is still in the design finalisation phase with cut metal expected before the end of the next financial year.



- Award of Auxiliary General Ocean Surveillance Ship (T-AGOS) 25-class for the US Navy awarded. The contract includes options for the detail design and construction of up to seven T-AGOS 25-class ships which, if exercised, would bring the cumulative value of the contract to US\$3.2 billion.

The new floating dock “Independence” has arrived in San Diego and as previously discussed forms a key part of our Support growth model.

## Shipbuilding

Austal had a solid year of deliveries - in February we delivered Expeditionary Fast Transport USNS Apalachicola (EPF 13) to the US Navy; the largest surface ship in the fleet with autonomous capability. LCS 32 and 34 were also delivered with substantial progress on LCS 36 and 38. LCS 38 will mark the end of what has been a very successful program.

Early stage production of the T-ATS construction program has been disappointing. In our FY2022 Annual Report, an ASX announcement on 17 January 2023, and our earnings guidance on 25 July 2023, Austal stated that the program was encountering changes in specification and general cost inflation pressures. In addition, the efficiency assumptions for the newly commissioned steel manufacturing line, such as labour hours and consequentially, recovery of overheads, did not meet forecasts and have been subsequently revised.

So, although these efficiency issues are expected to increasingly improve as Austal progresses construction of the T-ATS vessels, which is Austal USA's first steel shipbuilding project, they are slowing progress on the first vessels in production. The exercise of the option to construct the fifth and final vessel in the contract has also added in the associated cost issues to the onerous contract provision. As noted previously, Austal USA has submitted Requests for Equitable Adjustment (REAs) to seek recoveries for some of the additional costs incurred in the T-ATS project, but the precise timing and success of those claims is uncertain. Austal is submitting further REAs, for some, but not all, of the additional costs, and the outcome of those REAs is similarly uncertain.

## Support

FY2023 set Austal's support business up for future success.

In February 2023 Austal hosted a grand opening ceremony at its San Diego facility after the facility was successfully certified to execute US Navy

repair and maintenance enabling execution of the USS Canberra (LCS 30) post shakedown availability. In June we completed work on our floating dry dock, further expanding our capability on the San Diego waterfront which will be NAVSEA certified in January 2024, following completion of our waterfront improvements.

In Singapore Austal continues to provide reliable Outside of the Continental United States (OCONUS) support for forward deployed Littoral Combat Ships. We execute continuous, emergent and planned maintenance throughout seventh fleet, ensuring USN readiness is delivered.

In Mobile on Austal West Campus, we continue to provide an important role in our Services and Support business with consistent utilisation and contribution to profit through commercial work won. We grew our work in the mid-Atlantic region by working on carrier elevators. We are working to leverage this new work as a growth opportunity in FY2024.

Overall the US service business delivered, with growth in revenue and EBIT. It recorded \$227.0 million in revenue (FY2022: \$175.8 million) and \$14.7 million in EBIT this financial year (FY2022: \$11.6 million), demonstrating progress on our route to \$500 million annual revenue in this segment.

When combined, these strategic investments are starting to deliver a long term, stable income stream that will underpin sustained shareholder returns.

We also continue to look for acquisition and organic growth opportunities to support our customers in the regions in which they choose to operate.

## Outlook

Austal has had some challenges on its first steel program that was bid in a non-standard process, but none-the-less the steel panel line is up and running and ready for the significant volume of work that has been won in the past two years.

Looking ahead, Austal entered FY2024 with a \$11.6 billion order book, with unexercised options for the US Navy and US Coast Guard extending through to the early 2030's.

Austal USA's focus has been on broadening the potential order book with investment in facilities and capability, while delivering existing contracts, winning future build programs and ensuring we are part of the design process for longer term programs and developing a true long-term pipeline of work. The record order book clearly demonstrates this strategy is paying off.

## Australasia

### Strategy

Our core focus remains on long term sustainable, profitable growth. We have maintained our focus on sovereign capability and continue rebuilding positive stakeholder relationships across Navy, Defence, Australian Border Force, other Departments and Government R&D and Digital Technology teams. Austal's strategy of establishing operational capability in-country on commercial vessels and then subsequently moving into defence and support has worked well, and the recent meeting with the President of the Philippines allowed us to showcase the patrol boat and shipbuilding capability we have in that country.

### Shipbuilding

Both the Philippines and Vietnam operations delivered high quality vessels this year, but those deliveries marked the end of the current order book of vessels. Both yards have significantly scaled down and are performing infill work to maintain capability while we work to finalise new contracts. If these contracts do not materialise, we will have to review the ongoing operations at those sites. We have made a strategic decision to maintain this capability because we see a bright future as technology develops and delivers a significant resurgence in the market.

Our Australian operations continue to support Australian Navy and Border Force on the new build and sustainment of vessels. We had a successful year as we continue to deliver Evolved Cape-class and Guardian-class vessels. The Defence Strategic Review was well received, and we await the outcome of the Independent Analysis into the Navy's Surface Combatant Fleet review due in October 2023. Based on the opportunities outlined so far and the demonstration of our capability, I am confident the future will be bright as we continue to partner with Navy to deliver outcomes. The next opportunity is the Army's Independent Littoral Manoeuvre Vessel (Army Landing Craft). Austal is seeking to establish its position as the ultimate Sovereign Defence Prime Contractor in Australia, and we continue to assess inorganic and acquisition opportunities in the sector and what the defence precinct post the review's outcomes will yield.

The significant growth in the size of the Australasia business over the last 5 years has prompted investment in the appropriate Information Technology systems to monitor and control our operations in multiple countries. This year we went live with a transformation project, which includes implementation of a new

Enterprise Resource Planning (ERP) solution, with more to come. We maintained our ISO 27001 and Defence Industry Certification Program (DISP) cyber security accreditations for Austal IT systems.

Both Austal USA and Australasia have clear direction and an agreed set of objectives to build customer relationships and target addressable markets using technologically advanced products. We now have the ability to deliver shipbuilding, support and systems, for commercial and defence customers in both steel and aluminium.

### Support

The support yards in Cairns and Brisbane are back to full operating capacity following upgrades and modernisation improvements in FY2023. This impacted our FY2023 revenue but has set us up to maximise future commercial revenue, while our Cairns facility focuses on Border Force and Navy vessels. Many of the newly built ECCPB will be home ported in Cairns, and as the fleet grows, we anticipate our revenue will grow too.

As the Defence Strategic Review increases the size of the Navy fleet over coming years, there will be more vessel sustainment activities being undertaken in Perth, Darwin and Cairns, where we are already established.

### Outlook

The Defence Strategic Review indicated a commitment to Western Australia and consolidation to create a defence precinct, with a desire for continuous naval shipbuilding. Austal will work with Defence to achieve its desired outcomes and this should provide Austal the ability to focus on a visible pipeline of tenders that match our capabilities in Australian shipbuilding.

Of course, new ships also bring opportunities on new sustainment contracts.

Austal anticipates that the commercial ferry market will remain tough for the next few years, but there are signs of increasing opportunities, driven by three main factors: the reduction in COVID-19 travel restrictions, the ageing of the global commercial ferry fleet, and the desire of operators to reduce emissions. This will be vitally important for our yards in the Philippines and Vietnam.



## Research & Development (R&D)

Austal continues to invest in new technologies to support future growth and Austal's digital products have seen significant deployments this year.

Austal's trusted Control & Monitoring solution, MARINELINK, has been developed and deployed for over 20 years on Austal vessels. The next generation version of this software, MARINELINK PRIME, updates the system to utilise a modern architecture and underlying technologies, and has been designed to support the next generation of ships. MARINELINK PRIME has been successfully deployed on all ECCPBs delivered to the Royal Australian Navy and Express 5 in the commercial sector.

Austal's Asset Management solution LUSI (Lifecycle Upkeep Sustainment Intelligence) has moved to operational use on all ECCPBs delivered to the Royal Australian Navy. Opportunities to exploit this technology in other maritime areas, as well as in adjacent sectors such as aerospace, are under consideration.

Austal R&D is focusing on technologies for emissions reduction, autonomous operations and reduced crewing. On the back of delivering EPF 13 and its autonomous capability to the US Navy, in Australia Austal began a Patrol Boat Autonomy Trial, sponsored by the Commonwealth's Warfare Innovation Navy (WIN) Branch. This program is converting a decommissioned Armidale Patrol Boat (the PBAT Sentinel) to autonomous operations in order to better understand the use and capabilities of future autonomous platforms. The autonomous functionality is being delivered through the integration of the proven L3Harris autonomous navigation capability and extensions to the Austal MARINELINK Control and Monitoring solution. This program is progressing well, with sea trials anticipated in the second half of 2023 calendar year.

Austal is also working closely with a number of parties on emissions reduction. In April 2023, Austal signed a Memorandum of Understanding with the Gotland Company of Sweden for the design of an upcoming catamaran that can operate on hydrogen as well as other fuels.

In the US, Austal Technology is investing in additive manufacture capability and working closely with Navy to produce complex parts in a variety of materials.

A final area of focus is the modernisation of Austal's business systems. The first stage of this project, the deployment of a new Enterprise

Resource Planning (ERP) solution, successfully went live in 2023. This aligns the ERP systems across the US and Australasia businesses.

## Management

In April I was pleased to announce the appointment of a new Austal Chief Financial Officer, Christian Johnstone. Christian was previously CFO for AusGroup Limited and has also held Chief Financial Officer, Company Secretary and Executive M&A roles with Iron Ore Holdings and Wesfarmers.

I'd like to thank interim CFO Geoff Buchanan for his extended interim service with us and his work ensuring a smooth transition with Christian. I wish Geoff luck in his future endeavours.

## Conclusion

The highlight of this year has undoubtedly been the contract awards in the US business. Clearly the move to steel had been the right one and created a record order book for Austal. T-ATS has been a disappointment but is a program that was bid in a completely different manner to all other programs and despite the cost issues is progressing well through the new steel facility and producing very impressive quality that is being recognised by the customer.

The addition of submarine module work is just as satisfying as our shipbuilding wins. This has real potential to be a significant revenue stream alongside our work in autonomy. No doubt there will be more to come on both of these topics over the coming year.

Being part of the USS Canberra commissioning was a truly historic moment in our history and demonstrated our position in the market and our commitment to defence in both Australia and the USA. We have clearly stated our long term commitment to defence.

Part of that commitment is in support as well as shipbuilding and it's exciting to see the arrival of the floating dock in San Diego and watch the team commission that as we strive to hit our growth targets.

In Australia the DSR was encouraging, and we look forward to the output of the IAT. This should yield opportunities to match our US achievements - security and longevity of our future order book.

In summary, our two year investment in steel and support is now paying off in the form of orders. A turning point in the commercial market which, whilst small, is on the horizon and should provide a good revenue stream alongside defence in our dedicated facilities in the Philippines and

Vietnam. We will continue to pursue opportunities with both Navy and Coast Guard and utilise our proven patrol boat and commercial designs and design capability.

Crucially, we continue to maintain a robust balance sheet during this transition period.

A handwritten signature in black ink, reading "Paddy Gregg". The signature is written in a cursive, slightly slanted style.

Paddy Gregg

Managing Director and Chief Executive Officer



# Review of operations

## USA

### Financial performance

	2023 \$'000	2022 \$'000
<b>Revenue</b>		
Shipbuilding	\$ 998,116	\$ 880,101
Support	226,920	175,821
Total	<u>\$ 1,225,036</u>	<u>\$ 1,055,922</u>
<b>EBIT</b>		
Shipbuilding	\$ (9,498)	\$ 122,105
Support	14,677	11,636
Total	<u>\$ 5,179</u>	<u>\$ 133,741</u>
<b>EBIT Margin</b>		
Shipbuilding	N/A	13.9%
Support	6.5%	6.6%
Total	<u>0.4%</u>	<u>12.7%</u>

USA total segment revenue was \$1,225.0 million in FY2023 compared to \$1,055.9 million in FY2022.

EBIT decreased by \$128.6 million (96.1%) on FY2022 to \$5.2 million, primarily driven by the T-ATS loss of \$171.2 million in FY2023.

This was reflected in an EBIT margin of 0.4% in FY2023, compared to 12.7% in FY2022.

Revenue increased principally due to the diversification of new program revenue which more than offset the decline in revenue from the maturing LCS program.

### Shipbuilding

Shipbuilding revenue increased by 13.4% from FY2022 to FY2023.

Austal was awarded a US\$395.5 million contract in July 2022 to design and build a 110 metre Offshore Patrol Cutter vessel (OPC) for the United States Coast Guard (USCG), the first of up to 11 OPC vessels for the USCG with a potential contract value of \$US3.3 billion (AUD \$4.4 billion).

Austal delivered the 16th Independence-class Littoral Combat Ship, USS Santa Barbara (LCS 32), to the US Navy in July 2022, whilst LCS 34 was delivered in May 2023. LCS 36, the future USS Kingsville and LCS 38, the future USS Pierre remain under construction.

In July 2022, Austal was awarded a further US\$156.2 million fixed price incentive contract option for the construction of an additional two Towing, Salvage, and Rescue Ships (T-ATS), whilst in June 2023 the Company was awarded a fixed-price contract option for the construction of a fifth and final vessel (T-ATS 15) for US\$79.2m.

As indicated in the Company's FY2023 H1 Report, an onerous contract provision of US\$41.2 million was recognised at the half year in relation to the T-ATS program, in addition to the US\$7 million onerous contract provision recognised in FY2022.

More recently, the Company conducted a full review of forecasts for all five vessels in the T-ATS program and applied the same forecasting methodology to those vessels. Using that methodology, the forecast loss arising from this program was subsequently increased to US\$(122.6) million. It should also be noted that Austal USA has submitted a Request for Equitable Adjustment (REA) to recover some of the costs relating to design and construction. The Company has included an estimate in the onerous contract provision of the expected recovery of a portion of the REA remaining outstanding.

During H2 FY2023, as originally planned in FY2021, the Company reviewed the appropriate level of contingency required for the mature LCS and EPF programs due to a number of the significant milestones reached in this period including the delivery of LCS 32 and 34 and EPF 13. As a result of this review, the remaining contingencies associated with these programs were released in H2 FY2023. Refer note 4(V)(2) in the financial statements for further information.

Austal provided revised earnings guidance to shareholders in January 2023 and July 2023 as a result of these adjustments to the T-ATS onerous contract provision.

USNS Apalachicola (EPF 13) successfully completed acceptance trials for the US Navy in September 2022. EPF 13 is the US Navy's largest ship with the capability to operate as an unmanned surface vessel (USV) and is a significant achievement for Austal being the first surface vessel constructed by Austal USA with autonomous capability. EPF 14, the future USNS Cody and EPF 15, the future USNS Point Loma remain under construction. EPF 16 is under contract.

Following the successful delivery of the future USS Canberra (LCS 30) to the US Navy in December 2021, the vessel was commissioned in Sydney on 22nd July 2023, the first USN to be commissioned outside the United States.

Austal was awarded a US\$114.0 million fixed-price incentive (firm target) and firm-fixed-price contract for detail design of the Auxilliary General Ocean Ship T-AGOS-class for the US Navy. The contract includes options for detail design and construction of up to seven T-AGOS 25-class ships which, if exercised, would bring the cumulative value of the contract to US\$3.2 billion.

During the year the Company also acquired ~67 acres of Mobile waterfront property for expansion.

## Support

Support revenue increased from \$175.8 million in FY2022 to \$226.9 million in FY2023, whilst EBIT generated by the USA Support segment increased from \$11.6 million in FY2022 to \$14.7 million in FY2023.

Austal's USA support business grew its offshore service centres and support revenue even though support work was impacted by the reduced volume of support work taking place due to the delayed commissioning of the floating dry dock in San Diego.

Austal expects support revenue to continue to grow over the long term, with a growing fleet of LCS and EPF and the introduction of the floating dry dock to augment the Company's recent admission to the Sustainment Execution Contract (SEC) West panel of service providers in San Diego. This positions Austal to win a larger share of the available support work. The SEC West contract will also serve as an enabler to the expansion of support activities to other vessel types.

## New contract awards

In addition to the firm-fixed-price contract for detail design of the Auxilliary General Ocean Ship T-AGOS-class for the USN, and the additional T-ATS awards, Austal entered into agreements for a number of strategic developments during the year, with a potential combined value of approximately US\$75 million (approximately A\$108 million), with some early stage contracts providing a pathway for potential, future awards. These agreements include:

- An 'undefinitised contract action' (UCA) with the US Navy to resolve the detail design for three fully funded Emergency Medical Ships (EMS) – with these ships to be valued at over US\$900 million.
- Partnership with L3Harris Technologies to construct and modify autonomous capabilities in support of the US Navy's Overlord Unmanned Surface Vessel (USV) Program.
- Concept design for the US Navy's Large Unmanned Surface Vessels (LUSV), involving a prototype of an unmanned ship that is capable of autonomous operation.
- Appointment as the exclusive manufacturer of Saildrone, Inc.'s wind and solar-powered Surveyor USV, with discussions continuing as to the number of vehicles to be produced.
- Awarded a time and material (T&M) contract by General Dynamics Electric Boat (GDEB) for structural assembly fabrication in support of the US Navy Virginia-class submarine program, expected to provide potentially up to US\$25 million revenue for Austal USA.

- Partnership with General Dynamics Electric Boat to train Austal personnel in the manufacture of Command and Control Systems Modules and Electronic Deck Modules for US Navy nuclear submarines.
- A contract with Newport News Shipbuilding in the USA to fabricate aluminium aircraft elevators for two US Navy Ford-class aircraft carriers being constructed by Newport News Shipbuilding.

## Safety

Austal USA continued to receive national safety awards from the Shipbuilder's Council in America (Excellence in Safety and Improvement in Safety) during the year, affirming that Austal USA remains one of the safest shipyards in the USA maritime industry.

## Material business risks - USA

### Steel shipbuilding in the USA

Austal USA completed construction of its new steel shipbuilding facilities in April 2022. Since opening the facility, Austal has commenced work on its initial steel vessel program, the Navajo-class Towing, Salvage and Rescue Ships (T-ATS). As advised through the Company's ASX announcements in July 2023, this program has experienced significant performance hurdles which has resulted in forecasts of earnings losses. The program has encountered changes in specification and general cost inflation pressures and the efficiency assumptions that the Company made for the newly commissioned steel manufacturing line, such as labour hours and consequentially, recovery of overheads, did not meet forecasts and have been subsequently revised. So, although these efficiency issues are expected to increasingly improve as Austal progresses construction of the T-ATS vessels, which is Austal USA's first steel shipbuilding project, they are slowing progress on the first vessels in production. (Austal had noted a risk around this project being the first steel project in its 2022 Corporate Governance Statement).

### US Coast Guard Offshore Patrol Cutter (OPC) program

This contract award is a major boost for the Company however it also comes with risks such as:

- Successful protest – as at the date of this Annual Report, the OPC award is subject to a protest lodged by the incumbent builder, Eastern Shipbuilding Group. While the Company has no reason to believe the protest will succeed in overturning the award, it is a risk and such action would have a material impact on the pipeline of work in the USA. The Company has been working on these vessels for some time already, and will retain any amounts paid or owing to it for such work, even if the protest is successful;



- New customer – the OPCs will be constructed for the US Coast Guard. Austal has a longstanding and constructive relationship with the US Navy and the Company has every confidence that it will continue to develop and deepen its relationship with the Coast Guard to a similar degree, however the slight differences in policy and approach may introduce unexpected considerations in the initial stages of this relationship.

## Australasia

Reporting of Austal's Australia, Philippines, Vietnam and Muscat operations are combined into the Australasia Shipbuilding and Australasia Support reporting segments for tendering, scheduling, resource planning and management accountability.

### Financial performance

	2023 \$'000	2022 \$'000
<b>Revenue</b>		
Shipbuilding	\$ 222,319	\$ 285,705
Support	144,094	98,261
Total	<u>\$ 366,413</u>	<u>\$ 383,966</u>
<b>EBIT</b>		
Shipbuilding	\$ 6,720	\$ 11,863
Support	9,057	2,755
Total	<u>\$ 15,777</u>	<u>\$ 14,618</u>
<b>EBIT Margin</b>		
Shipbuilding	3.0%	4.2%
Support	6.3%	2.8%
Total	<u>4.3%</u>	<u>3.8%</u>

The Australasia segment reported revenue of \$366.4 million in FY2023, compared to \$384.0 million for FY2022.

EBIT increased from \$14.6 million in FY2022 to \$15.8 million in FY2023.

Revenue in FY2023 continued to be impacted by reduced work in the commercial ferry sector due to delayed orders as operators contemplate future vessel design with alternative fuel propulsion sources in mind. This was offset by the continued growth in the Support business in FY2023.

### Shipbuilding

Austal is currently examining investment options developed to support the Commonwealth of Australia Defence Strategic Review outcomes.

Austal delivered 4 of the contracted 8 Evolved Cape-class Patrol Boats (ECCPB's) defence vessels to the Royal Australian Navy in FY2023.

Construction continues to progress well at Austal Australia on the 3 remaining ECCPB vessels which are under various stages of construction.

An additional Guardian-class Patrol Boat (GCPB) was awarded by the Commonwealth of Australia (Commonwealth) during the year. Fifteen GCPB's have now been delivered to the Commonwealth, with a further three built and ready for acceptance.

Austal Philippines delivered the 115 metre, high-speed vehicle-passenger catamaran for Danish ferry operator Molslinjen. The new 'Auto Express 115' is the largest ferry (by volume) ever built by Austal.

Austal Vietnam also delivered the 66-metre high speed catamaran ferry, Apetahi Express, to the Degage Group of French Polynesia, paving the way for future opportunities.

Despite the challenges being experienced in the commercial market, Austal is actively focused on securing a number of potential contracts for the Philippines and Vietnam yards, whilst working collaboratively with a number of commercial operators to identify future fuel technologies.

### Support

Support activity in FY2023 included continuing servicing and support for the fleet of 8 CCPBs operated by the Australian Border Force throughout Northern Australia, with the ABF Cape sustainment contract extended through to August 2024.

The support contract over three years for CCPB 9 Cape Fourcroy and CCPB 10 Cape Inscription, was extended, with S&Q requested to provide support to ECCPB for a further 12 months.

In Service Support continues to grow, with the Queensland yards operating near capacity.

In June 2022, Austal announced a two year support contract to sustain the 2 CCPBs the Company built for the Government of the Republic of Trinidad and Tobago. The Trinidad and Tobago Service center is now fully operational.

The Autonomous Patrol Boat (PBAT) Systems Definition Review was completed, with good progress towards achieving an autonomous system ready for platform demonstration.

Austal's Asset Management capability and technology has been extended into the Air Domain, with the introduction of ALFI.

### Material business risks - Australasia

#### Commercial Ferries

The commercial high speed aluminium ferry business is a significant market for Austal and provides significant workload to the Philippines and Vietnam shipyards. The newbuild ferry industry can be adversely affected by economic, political, social, security and other factors which delay or eliminate future orders for vessels or even cause cancellations of

contracted vessels. Closure or contraction of this market, or substantial contraction of the order book generally, could force a closure of shipyards or severe curtailment of operations. Since delivering vessels in March 2023 and May 2023 respectively, Austal Philippines and Austal Vietnam have not added to their pipelines of work, and resources in each location have been significantly reduced as a result. Alternative opportunities are being pursued by each of those facilities at present, however without further material shipbuilding commitments, the Company will be forced to consider reduction or re-orientation of its Asian shipyards in the next 12 months.

This market also retains a risk of potential customer default based on insolvency or other commercial considerations that are less likely in contracts with government or state-owned entities. While Austal seeks to mitigate this risk through a combination of contractual and cashflow protection measures, an unexpected repudiation or material breach by a commercial customer could pose a risk to workforce retention and operational planning, because the nature of the business means that large projects are not easily replaced or rescheduled entirely.

## Other material business risks

### Tax treatment in Australia, USA and other jurisdictions

As with many global entities, Austal's operations include some cross-border tax arrangements currently under scrutiny by authorities around the world, including the ATO (Australia) and the IRS (US). Austal addresses these matters through the engagement of third party experts and considers itself compliant with all relevant requirements, however in light of the increased scrutiny and focus of national governments on base erosion and profit shifting, there is always a risk that tax authorities in the jurisdictions in which Austal operates will take a different view to that of the Company. This is demonstrated by the current engagement with the ATO and IRS in relation to intercompany intellectual property royalties, as disclosed in the notes to the Company's financial accounts.

### Cyber security

Austal's production of vessels for the US, Australian and other governments means that it handles sensitive information regarding people and vessels. Austal has established information handling policies and standards and cyber security measures that seek to prevent the disclosure and theft of such information and in 2022 achieved ISO27001 accreditation, which further enhances the Company's cyber security framework. As a defence provider to the Commonwealth of Australia, Austal Australia is certified under the Department of Defence's Defence Industry Security Program (DISP) and as a prime contractor to the US Department of Defence, Austal USA complies with the National Institute of Standards

and Technology SP800-171 Standard (NIST 800-171). However, third parties retain the ability to access even the most well protected systems. This may create levels of interference or public disclosure, such as demands of large financial payments or interruption of service.

### Negative outcome of the regulatory investigation

As initially announced to the ASX in January 2019, and in a number of updates since then, Austal Limited, Austal USA and some of their officers have been the subject of investigations by ASIC in Australia, and the Department of Justice and the Securities Exchange Commission in the USA.

Following resolution of the Australian regulatory investigations with ASIC in October 2022, the Group continues to engage with the US Department of Justice (DOJ) and Securities and Exchange Commission (SEC) regarding their respective investigations into alleged fraudulent activities by former Austal USA personnel during 2013 – 2016.

In March and April 2023 each of the DOJ and SEC commenced formal proceedings alleging fraudulent conduct by the 3 ex-employees of Austal USA. According to the DOJ allegation, the 3 former employees concealed the true extent of cost growth on the LCS program from the Austal USA Board of directors and from Austal Limited and its shareholders, resulting in Austal Limited reporting inaccurately overstated progress on the LCS contract.

While the SEC's complaint and the DOJ's indictment pertain to the conduct of those individual 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 3 ex-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 the group is engaging with both the DOJ and the SEC to fully understand the nature of any potential allegations or proceedings against either company, and to work constructively towards a negotiated outcome of same. More detail on this matter is provided in the notes to the financial statements.



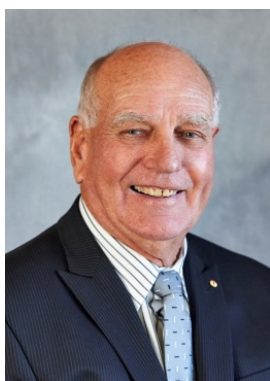
## Directors' report

The Board of Directors of Austal Limited submit their report for the year ended 30 June 2023.

### Directors

The names and details of the Company's Directors in office at the date of this report are detailed below:

#### John Rothwell AO – Non-Executive Chairman



John has played a major role in the development of the Australian aluminium shipbuilding industry approaching 50 years of experience in boat and shipbuilding. He is the architect responsible for the establishment of Austal and was the founding Managing Director. John identified markets for high speed ferries throughout Asia which resulted in Austal's rapid growth. He saw the potential for US Defense contracts for high speed aluminium naval ships and he led the formation of a new shipyard in Mobile, Alabama in 1999.

John was appointed as an Officer of the Order of Australia (AO) in January 2004 for services to the Australian shipbuilding industry, and for significant contributions to vocational education and training. He was named "Australian Entrepreneur of the Year" by Ernst and Young in 2002 and he was awarded the Western Australia Citizen of the Year in the category of Industry and Commerce in 1999.

John stepped down as Executive Chairman in 2008 to continue as Non Executive Chairman after managing the Company for 20 years.

#### Paddy Gregg – Chief Executive Officer



Patrick (Paddy) Gregg was promoted to the position of Austal's Chief Executive Officer on 1 January 2021, following 4 years as Austal's Chief Operating Officer.

Paddy is a highly regarded senior leader with significant project management, manufacturing and business experience acquired within the high-technology nuclear defence industry, Rail Industry and Naval Shipbuilding Industry.

Immediately prior to joining Austal, Paddy was working for Network Rail in the United Kingdom. During his time there he was responsible for major infrastructure enhancements and renewals on the Western and Wales Route.

Paddy has extensive experience in the naval sector having worked for BAE Systems Submarines, based in Barrow-in-Furness, England. Paddy was the Head of Project for the second Astute-class hunter killer nuclear submarine build. In this role he worked closely with both the United Kingdom Ministry of Defence and Navy to ensure the project was successfully delivered.

As Chief Operating Officer at Austal, Paddy had responsibility for the shipbuilding and sustainment operations in Australia, Philippines and Vietnam. This responsibility covered both new build of commercial and naval vessels, and the sustainment stream of the business focussed support for Australian Border Force and Royal Australian Navy.

As Chief Executive Officer, Paddy oversees a global company comprising 5 shipyards and 9 service centres in 4 countries, with more than 4,300 employees worldwide.

Paddy is a Chartered Engineer and fellow of the Institution of Mechanical Engineers, with a Masters Degree in Mechanical Engineering from the University of Newcastle-upon-Tyne, and a Masters in Business Administration from the Warwick Business School.

## **Sarah Adam-Gedge – Independent Non-Executive Director**



Sarah was appointed as a Non-Executive Director of the Company in August 2017, became Chair of the Audit & Risk Committee in December 2022, Deputy Chair of the Austal Limited Board in September 2019 and is a member of the Nomination & Remuneration Committee. She brings strong consulting, customer experience, digital and technology expertise to Austal through her experience in executive roles in the information technology and consulting sectors.

Sarah is also a Non-Executive Director of Codan Ltd, Kinetic IT Pty Ltd and Cricket Australia, as well as being an independent Audit Committee member for the Australian Sports Foundation. In August 2023, Sarah was appointed as Non-Executive Director of Bravura Solutions Ltd, as well as Chair of the Audit and Risk Committee and member of the Human Resources Committee. Prior to her professional director career, Sarah was the CEO & Managing Director of Wipro Australia & New Zealand, Publicis Sapient, the digital business

transformation hub of the Publicis Groupe, Avanade Australia, Managing Partner and Vice President at IBM, Managing Partner at PwC and Partner at Arthur Andersen. Sarah's work experience is across many industries and geographies.

Sarah is a Chartered Accountant, and member of the Chartered Accountants Australia/New Zealand. She holds a Bachelor of Business (Accounting) from the Queensland University of Technology and is a Graduate of the Australian Institute of Company Directors. Sarah has extensive Diversity and Inclusion experience, is a mentor for the Minerva Council and for CAANZ, has sponsored the development of Reconciliation Action Plans, and is committed to sustainability having completed the Sustainability and Social Impact Futures course at RMIT.

## **Chris Indermaur – Independent Non-Executive Director**



Chris was appointed as a Non-Executive Director of the Company in October 2018, has been a member of the Audit & Risk Committee and Nomination & Remuneration Committee since October 2018 and August 2019 respectively, and became Chair of the Nomination & Remuneration Committee in December 2022. Chris has over 40 years of experience in large Australian companies in Engineering and Commercial roles. Amongst these roles he was the Engineering and Contracts Manager for the QNI Nickel Refinery at Yabulu, Company Secretary for QAL and General Manager for Strategy and Development at Alinta Limited. Chris is also a Director of Austin Engineering Limited and Mayur Resources Limited.

Chris holds a Bachelor of Engineering (Mechanical) and a Graduate Diploma of Engineering (Chemical) from the West Australian Institute of Technology (now Curtin University). He also holds a Bachelor of Laws and a Master of Laws from the Queensland University of Technology and a Graduate Diploma in Legal Practice from the Australian National University.

## **Mick McCormack – Independent Non-Executive Director**



Mick was appointed as a Non-Executive Director of the Company in September 2020 and to the Nomination & Remuneration Committee and Audit & Risk Committee in April 2021.

Mick has over 35 years' of experience in Australia's energy infrastructure sector, is acknowledged as a pioneer in the Australian energy industry and was instrumental in transforming Australia's gas delivery system with the development of a world-leading pipeline grid system. He was formally Managing Director and CEO of ASX listed APA Group between 2015-2019, growing the enterprise value of the business from \$1 billion to \$24 billion during that time. Mick is recognised for delivering operational efficiency, safety performance excellence, value-adding mergers & acquisition strategies, effective capital allocation, prudent capital management and strong corporate governance principles.

Mick holds a Bachelor of Applied Science (Surveying) and a Master of Business Administration from the University of Queensland, and a Graduate Diploma of Engineering from Monash University. Mick is Chairman of Central Petroleum Limited and a Director of Origin Energy. He is also a director of the Clontarf Foundation and is Chairman of the Australian Brandenburg Orchestra Foundation.



## Lee Goddard – Independent Non-Executive Director



Lee was appointed as a Non-Executive Director of the Company in January 2023, and has been a member of the Audit & Risk Committee and Nomination & Remuneration Committee since January 2023. He is an Executive Leader who continues to serve as a Royal Australian Navy active reserve officer (rank Rear Admiral) following 34 years full time service up until January 2021.

In April 2022 he was appointed as the inaugural CEO and Executive Director of the Australian Missile Corporation. He is also a Non-Executive Director of the Commonwealth Superannuation Corporation, an Advisor to the Minderoo Foundation and OCIUS Technologies, and the Chairman (Race Director) of the Sydney to Hobart Yacht Race.

Prior to assuming his current industry roles, he was dual appointed as Commander, Maritime Border Command and Operation Sovereign Border, responsible for the law enforcement and operational oversight of Australia's maritime economic and security zones; covering more than 10 per cent of the earth's surface across the Indian, Pacific and Southern Oceans, Antarctic Territory and Australia's northern maritime approaches. This was preceded by a two-year secondment into the Department of the Prime Minister & Cabinet.

On promotion to Commodore in late 2014 he assumed the role of Commander Surface Fleet, commanding 18 major warships and over 3,500 personnel. He has Commanded warships and joint-agency Taskforce's at every senior Navy rank from Commander to Rear Admiral.

He has contributed to a range of professional and academic journals focused on national security, maritime issues and international affairs.

## Interests in the shares and options of the company and related corporate bodies

The interests of the Directors in the shares of Austal Limited at the date of this report were as follows:

<u>Director</u>	<u>Ordinary Shares</u>	<u>Share Rights</u>	<u>Indeterminate Rights</u>
Mr John Rothwell	32,761,692	-	-
Mr Paddy Gregg	242,399	-	441,683
Mrs Sarah Adam-Gedge	20,000	66,327	-
Mr Chris Indermaur	-	49,066	-
Mr Mick McCormack	106,920	-	-
Mr Lee Goddard	-	-	-

## Principal activities

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

## Results

The net (loss) after tax of the consolidated entity for the financial year was \$(13.8) million (FY2022: net profit after tax \$79.6 million).

## Review of operations

A review of the operations and financial position of the consolidated entity is outlined in the Review of Operations on page 11.

## Share price

The closing share price of Austal at 30 June 2023 was \$2.37 (30 June 2022: \$1.80).

## Dividends

An unfranked dividend of 4.0 cents per share was paid after the FY2023 H1 results (FY2022: H1 4.0 cents per share) and a further dividend of 3.0 cents per share has been declared post 30 June 2023 for FY2023 (FY2022 final 4.0 cents per share).

## Significant events after the balance date

The Directors have declared an unfranked dividend of 3.0 cents per share in respect of the year ended 30 June 2023 as described above.

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



## Likely developments and future results

A general discussion of the Group's outlook is included in the Chairman's report on page 1, the CEO's report on page 4 and the Review of Operations on page 11.

## Significant changes in the state of the affairs

Mr Giles Everist resigned as Non-Executive Director, effective 9 December 2022. Please refer to the ASX announcement titled "Resignation of Giles Everist as Non-executive Director" on 9 December 2022 for further information.

Mr Lee Goddard was appointed as Non-Executive Director, effective 1 January 2023. Please refer to the ASX announcement titled "New Non-executive Director Appointment" on 29 December 2022 for further information.

Mr Christian Johnstone was appointed as CFO, effective 3 April 2023. Please refer to the ASX announcement titled "Austal Limited appoints new Chief Financial Officer" on 3 April 2023 for further information.

There were no other significant changes to the structure or operations of the Group during the financial year.

## Environmental regulation and performance

The Group has a policy of at least complying with, but in most cases exceeding, environmental performance requirements. No environmental breaches have been notified by any Government agency during the year ended 30 June 2023.

## Share rights, performance rights, indeterminate rights and service rights

There were 3,468,114 un-vested performance rights and 1,622,793 service rights at 30 June 2023.

1,870,548 performance rights, 345,839 indeterminate rights and 584,520 service rights were granted during FY2023.

## Indemnification and insurance of Directors and Officers

An indemnification agreement has been entered into between the parent entity and each of the Directors and Officers named in this report. The Company has agreed to indemnify those Directors and Officers against any claim for any expenses or costs which may arise as a result of work performed in their respective capacities to the extent allowed by the law.

The parent entity paid premiums during the financial year in respect of a contract insuring the Directors and Officers of the Group in respect of liability resulting from these indemnities. The terms of the insurance arrangements and premiums payable are subject to a confidentiality clause.

## Indemnification of auditors

The parent entity has agreed to indemnify its auditors, Deloitte Touche Tohmatsu, against claims by third parties arising from the audit (for an unspecified amount) to the extent permitted by law, as part of the terms of its audit engagement agreement. No payment has been made to indemnify Deloitte Touche Tohmatsu during or since the financial year.

## Rounding

The amounts contained in this report and in the financial report 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.

## Committee membership

The Company has an Audit & Risk Committee and a Nomination & Remuneration Committee of the Board of Directors. Members acting on the committees of the Board during the year were:

<u>Audit &amp; Risk</u>	<u>Nomination &amp; Remuneration</u>
Mrs Sarah Adam-Gedge <sup>1</sup>	Mr Chris Indermaur <sup>4</sup>
Mr Chris Indermaur	Mr John Rothwell
Mr Mick McCormack	Mrs Sarah Adam-Gedge <sup>5</sup>
Mr Lee Goddard <sup>2</sup>	Mr Mick McCormack
Mr Giles Everist <sup>3</sup>	Mr Lee Goddard <sup>6</sup>
	Mr Giles Everist <sup>7</sup>

1. Chair of the Audit & Risk Committee since December 2022
2. Member of the Audit & Risk Committee since January 2023
3. Chair of the Audit & Risk Committee to December 2022
4. Chair of the Nomination & Remuneration Committee since December 2022
5. Chair of the Nomination & Remuneration Committee to December 2022
6. Member of the Nomination & Remuneration Committee since January 2023
7. Member of the Nomination & Remuneration Committee to December 2022

## Directors' meetings

The number of Board and committee meetings of Directors and the attendance by each Director during the year was as follows:

	Meeting		
	Board	Audit & Risk Committee	Nomination & Remuneration Committee
<b>Number of meetings held</b>	7	4	5
<b>Number of meetings attended:</b>			
Mr John Rothwell <sup>2</sup>	7	n/a	5
Mr Paddy Gregg <sup>1</sup>	7	4	5
Mrs Sarah Adam-Gedge	7	4	5
Mr Chris Indermaur	7	4	5
Mr Mick McCormack	7	3	4
Mr Lee Goddard <sup>3</sup>	3	2	2
Mr Giles Everist <sup>4</sup>	4	2	1

1. Paddy Gregg is not formally a member of the Audit and Risk Committee or Nomination & Remuneration Committee but attended as a guest.
2. John Rothwell is not a member of the Audit & Risk Committee.
3. Lee Goddard joined the Board and the Audit & Risk Committee and Nomination & Remuneration Committee on 1 January 2023.
4. Giles Everist resigned as a director and member of all subcommittees in December 2022.



# Nomination & Remuneration Committee Chair's message

Dear Shareholder,

The Board of Directors is pleased to present the Remuneration Report for the year ended 30 June 2023, outlining the nature and amount of remuneration for Austal's Non-Executive Directors and other Key Management Personnel (KMP), and changes in KMP in the financial year.

## 2022 remuneration resolutions

I would like to thank shareholders for the positive support provided in favour of remuneration related resolutions at the 2022 AGM.

## KMP remuneration

Remuneration for KMP continues to be a focus for the organisation and our remuneration framework is designed to be competitive to attract and retain talent and reward for achieving business outcomes. The Executive remuneration framework is monitored annually for relevance and competitiveness and recent reviews of the framework by the Nomination and Remuneration Committee (NRC) has determined that salary mix and structure remain competitive against market and identified competitors.

Benchmarking of KMP remuneration in FY2023 resulted in a fixed remuneration adjustment for the CEO to ensure alignment to P50 was maintained. Other KMP fixed remuneration was adjusted in line with aged market data and legislated superannuation changes.

In accordance with the Executive Remuneration policy, external remuneration consultants have recently been engaged to benchmark Executive Remuneration. Results from this exercise will be considered as part of FY2024 annual remuneration review.

FY2023 proved to be a successful year for contract awards including a major contract award in USA however challenges experienced on the pivot to steel programs has impacted the results and in turn incentives. As the group has not achieved the 85% profit gate threshold there are no Short-Term Incentives for FY2023 across the group. In addition, the recent profit downgrade results in zero vesting of the FY2021 Long Term Incentive awards.

## KMP update

We have seen a number of changes to KMP in FY2023:

- Mr Giles Everist resigned from the Board on 9 December 2022.
- Mr Lee Goddard was appointed to the Board on 1 January 2023.
- After an extensive search Mr Christian Johnstone was appointed as Chief Financial Officer and is performing a handover with the Interim Chief Financial Officer, Mr Geoff Buchanan through to 30 August 2023.

## Board remuneration

In line with Executive Remuneration policy the company sourced annual market movements from external remuneration sources to gauge the market median increases for NEDs in the year. Results of this review will be considered as part of the FY2024 annual remuneration review.

## Board Diversity

The Board recognises the need for diversity as part of its overall composition. The Board continues to keep diversity at the forefront of its selection criteria when recruiting for vacant positions. The Board views diversity as skills, knowledge, industry experience, background, race, gender and other qualities of the individual members as a whole.

### Commitment to ongoing feedback, and shareholder support

The Board looks forward to the continued support of shareholders for remuneration related resolutions at the upcoming AGM. The Board will continue to consider further improvements to remuneration governance, policies and practices, and commits to engaging with shareholders and their representatives on these matters.

The Board will be pleased to receive feedback in relation to this report.



Yours sincerely,

Chris Indermaur

Chair, Nomination & Remuneration Committee



# Remuneration report

This Remuneration Report for the year ended 30 June 2023 outlines the remuneration arrangements of the Company in accordance with the requirements of the Corporations Act 2001 (the Act) and its regulations. This information has been audited as required by section 308(3C) of the Act.

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## 1. Key management personnel

This report covers all Key Management Personnel (KMP) as defined in the Accounting Standards, including all Directors, as well as those Senior Executives who have specific responsibility for planning, directing, and controlling material activities of the Group.

The KMP for the year ended 30 June 2023 were:

### Senior Executives

Mr Paddy Gregg	Chief Executive Officer and Managing Director since January 2021
Mr Ian McMillan	Chief Operating Officer Australasia since January 2021
Mr Rusty Murdaugh	President USA since September 2021 Interim President USA from February 2021 until appointed permanently
Mr Geoff Buchanan	Interim Chief Financial Officer since November 2021
Mr Christian Johnstone	Chief Financial Officer since April 2023
Mrs Christy Taylor	Chief Operating Officer USA - Transformation since promoted in May 2023

### Non-Executive Directors

Mr John Rothwell	Chairman since 1998 Member of the Nomination & Remuneration Committee since December 1998
Mrs Sarah Adam-Gedge	Independent Non-Executive Director since August 2017 Member of the Audit & Risk Committee from August 2017 to December 2022 Chair of the Audit & Risk Committee since December 2022 Chair of the Nomination & Remuneration Committee from September 2018 to December 2022 Member of the Nomination & Remuneration Committee since December 2022 Deputy Chair of the Board since September 2019
Mr Chris Indermaur	Independent Non-Executive Director since October 2018 Member of the Audit & Risk Committee since October 2018 Member of the Nomination & Remuneration Committee since August 2019 Chair of the Nomination & Remuneration Committee since December 2022
Mr Mick McCormack	Independent Non-Executive Director since September 2020 Member of the Audit & Risk Committee since April 2021 Member of the Nomination & Remuneration Committee since April 2021
Mr Lee Goddard	Independent Non-Executive Director since January 2023 Member of the Audit & Risk Committee since January 2023 Member of the Nomination & Remuneration Committee since January 2023

The following person resigned and ceased to be a Non-Executive Director during FY2023:

Mr Giles Everist	Independent Non-Executive Director from November 2013 to December 2022 Chair of the Audit & Risk Committee from October 2014 to December 2022 Member of the Nomination & Remuneration Committee from February 2014 to December 2022
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## 2. Remuneration governance framework

The following framework and strategy broadly outlines the principles and policies that the Board applies in overseeing KMP remuneration:

### I. Nomination & Remuneration Committee Charter

The role and responsibilities of the committee are outlined in the Nomination & Remuneration Committee Charter (the Charter), which is available on the Austal website.

The role of the Nomination & Remuneration Committee (NRC) is to ensure that appropriate remuneration policies are in place which are designed to meet the needs of the Company and to enhance corporate and individual performance.

The Committee also oversees the implementation of the policies in setting remuneration and performance objectives related to the Short Term Incentive (STI) and Long Term Incentive (LTI) plans.

The remit of the NRC also includes succession planning which was undertaken for the Directors of the Board and Executives during FY2023.

The Charter specifies that the NRC is to be composed of at least three members with the majority being independent directors.

### II. Share trading policy

The Share Trading Policy of Austal is available on the Austal website. The Policy contains the standard references to insider trading restrictions that are a legal requirement under the Corporations Act, as well as conditions associated with good corporate governance. The Policy specifies 'Closed Periods' during which Directors and related parties, KMP, Senior Executives, and any employee in possession of inside information must not trade in the securities of the Company, unless written permission is provided by the Board following an assessment of the circumstances.

All equity based remuneration awards which have vested are subject to the Group's Share Trading Policy.

### III. Executive remuneration consultant engagement policy

Austal has an Executive Remuneration Consultant (ERC) engagement policy which is intended to manage the interactions between the Company and the ERC. The policy is intended to ensure independence of advice and to provide clarity to the NRC regarding the extent of any interactions between management and the ERC. This policy enables the Board to state with confidence that advice received has been independent. The policy states that ERCs are to be approved and engaged by the Board before any advice is received and that such advice may only be provided to a NED. Any interactions between management and the ERC must be approved and overseen by the NRC, this includes the collection of factual internal records (e.g. superannuation paid or allowances and benefits).

### IV. Stakeholder engagement

The Company seeks input regarding the governance of KMP remuneration from a wide range of sources, including:

- Shareholders
- NRC Members
- Stakeholder groups including proxy advisors
- External remuneration consultants
- Other experts and professionals such as tax advisors and lawyers
- Company management to understand roles and issues facing the Company

## V. Remuneration framework

Austal is committed to responsible remuneration practices. The need to reward the Group's employees fairly and competitively based on performance needs to be balanced with the requirement to do so within the context of principled behaviour and action, particularly in the area of safety, risk, compliance and control.

Remuneration should contribute to the Group's achievements in a way that supports the Group's culture and goals. The Remuneration Policy Framework set out below summarises the key features of the Group's remuneration approach.

### Our Vision

Maintain a responsible, performance-based Remuneration Policy aligned with the long-term interests of shareholders. Certain incentive metrics are utilised on the Remuneration framework to capture the impact of the Group's strategy.

### Our Goal

Strike the right balance between meeting shareholders' expectations, paying our employees competitively, and responding appropriately to the regulatory environment.

### Our Approach

#### Governance

Clearly defined and documented governance procedure.  
Independent Nomination & Remuneration Committee.  
Independent External Remuneration Consultants.  
Annual assessment of Remuneration Policy.

#### Individual Remuneration

Reward annual performance of Group relative to planned key performance indicators.  
Aligned with business performance.  
Recognise and reward teamwork and development of the culture of the organisation.  
Award and differentiate based on individual performance and contributions.

#### Individual Remuneration Determination

Total remuneration based approach.  
Facilitate competitiveness by paying remuneration for comparable roles and experience, subject to performance.  
Promote meritocracy by recognising individual performance, with an emphasis on contribution, ethics and safety.  
Equal remuneration opportunity.

#### Remuneration Structure

Provide the appropriate balance of fixed and variable remuneration consistent with the position and role.  
Significant portion of variable remuneration deferred and aligned with the long-term performance of the Group.  
Promote ethical behaviour and do not create incentives to expose the Group to inappropriate risk.



### 3. Executive KMP remuneration policy

#### I. Structure

The following policy applies to executive KMP:

- Total Remuneration Packages (TRP) should be composed of:
  - Total Fixed Remuneration (TFR) which is inclusive of superannuation, allowances, social security, benefits and any applicable fringe benefits tax (FBT) as well as any salary sacrifice arrangements.
  - Short Term Incentives (STI) which provides a reward for performance against annual objectives.
  - Long Term Incentives (LTI) which provides an equity-based reward for performance against indicators of shareholder benefit or value creation, over a three year period.
- Internal TRP relativities and external market factors should be considered.
- TRP should be structured with reference to market practices and the particular circumstances of the Group where appropriate.

#### II. Total fixed remuneration

##### i. Framework

- Base Packages should be set with reference to the market practice of ASX listed companies at the 50th percentile, where 50% of the comparator group are above the median level and 50% are below the median level.
- TRP at Target bonus levels (being the Base Package plus incentive awards intended to be paid for targeted levels of performance) should be between the 50th and 75th percentile range of the relevant market practice to create a strong incentive to achieve targeted objectives in both the short and long term.
- Remuneration will be managed within a range to allow for the recognition of individual differences such as individual experience, knowledge or competency with which they fulfil a role (a range of + / - 20% is generally targeted in line with common market practices).

##### ii. CEO minimum equity holding

The CEO must accumulate and hold a minimum equity holding that is equal to or greater in value than 1 year of TFR. The minimum equity holding will be computed in July of each year based upon the volume weighted average price of Austal shares in the month of June. The minimum equity holding includes shares, share rights and vested indeterminate rights, but does not include unvested Performance Rights.

The minimum equity holding may be achieved by the vesting of LTI grants, personal purchase of shares on market by the CEO, or the CEO and the Board may agree at the commencement of each year for a portion of TFR to be unconditionally (not subject to performance conditions since it is part of TFR) payable in share rights.

#### III. Short term incentive (STI) policy

The short term incentive policy provides for a component of annual remuneration of executives to be at-risk, payable in a mix of cash and equity and based upon an assessment of performance measured using Key Performance Indicators (KPI) that are aligned to the relevant business unit of each individual and the Company performance.

##### i. Purpose

The purpose of the STI Plan is to incentivise KMP to deliver and outperform KPI and annual business plans that are challenging but achievable. This is intended to lead to sustainable superior returns for shareholders and to modulate the cost of employing KMP such that the cost of employment reflects the performance of the Company.

## **ii. Principles**

The principles of the plan are that:

- STI should be aligned with clear and measurable targets which are set at the start of the financial year, and the targets will be aligned with the achievement of the Company's business plan.
- STI payments will be determined after the end of the financial year and the full year accounts have been approved by the Board.
- STI payments are at the full discretion of the Board even if hurdles are met in order to avoid inappropriate outcomes.

## **iii. Form of remuneration - cash and equity**

STI awarded to all non-USA Executive KMP will be paid as follows:

- 50% in cash.
- 50% in Indeterminate Rights (refer to the definition below) with a minimum holding period of 1 year irrespective of continued employment.

Both the Austal USA President and Austal USA Chief Operating Officer - Transformation receive 100% of STI in cash.

## **iv. Indeterminate Rights**

Indeterminate Rights are contractual rights to the value of a share in the Company which are typically settled in the form of shares but which may, at the Board's discretion, be settled in cash.

## **v. Minimum holding period**

The minimum holding period for indeterminate rights that have vested is 1 year and applies irrespective of continued employment with Austal.

## **vi. Measurement period**

The Measurement period for STI awards is the financial year of the Group.

## **vii. Determination of STI award**

The Board reviews and approves performance targets and objectives annually for the CEO; other executive KMP targets and objectives are also reviewed annually. At the discretion of the Board the final STI award is determined subsequent to financial year end taking into consideration the expectations and outcomes of shareholders. Where an STI is awarded, the payment is made in September of the following financial year.

## **viii. Key performance indicators (KPI)**

KPI are customised for each KMP, Senior Executive and Manager and reflect the nature of their role, whilst creating shared objectives where appropriate.

Weightings are applied to the KPI selected for each participant to reflect the relative importance of each KPI whilst ensuring that financial metrics always constitute at least 50% of the total.

Satisfaction of KPI performance conditions are assessed qualitatively and quantitatively against the targets defined at the start of the financial year.

The FY2023 KPI are contained in the STI KPI target and outcomes section commencing on page 33.



**ix. Cessation of employment**

STI awards will only be made to those participants that are still employed at the end of the Measurement Period (30 June each year).

Resignation after the completion of the measurement period will not impact the 50% of STI that is paid in cash.

STI recipients who resign after the completion of the measurement period will be subject to good leaver / bad leaver provisions. An employee may forfeit their Indeterminate Rights if they are a 'bad leaver'. A bad leaver is defined as an employee whose employment is terminated for cause, resigns upon being asked to do so or an ex-employee who acts against the interests of the company.

STI awards may be determined at the discretion of the Board in the case of either resignation or termination due to serious illness or disability.

**x. Change of control**

The Board has determined that in the event of a Change of Control (including a takeover), Indeterminate Rights will vest on a pro-rata basis at the 'Target' level for the portion of the Performance Period that has elapsed at the date of the change of control. The Board retains discretion to vary this approach if it considers that it would generate an inappropriate outcome.

**xi. Profit gate**

The Company's EBIT (Earnings Before Interest and Tax) result must be at least 85% of budget in order for STI to be awarded.

**xii. Individual performance gate**

Individual performance ratings for the year must be at least 'Meets Expectations' on the following scale:

- Does not meet expectations
- Meets expectations
- Exceeds expectations

The Board will have discretion to vary award outcomes in the circumstances that the outcomes would otherwise be inappropriate.

**xiii. Fraud or gross misconduct**

All entitlements in relation to the Measurement Period will be forfeited by a participant if the Board forms the view that a participant has committed fraud, defalcation or gross misconduct in relation to the Company.

**xiv. Clawback policy**

The Board has implemented a Clawback policy which provides for the potential forfeiture of the unvested equity based STI entitlements in the event of a material misstatement in the Company's financial statements of a relevant STI year being identified during the subsequent holding lock period.

The Clawback policy only applies to the Indeterminate Rights awarded from STI and does not apply to the cash portion of STI that has already been paid to participants.

**xv. STI award opportunities**

The FY2023 STI award opportunities are contained in the STI KPI target and outcomes section on page 35.

#### **IV. Long term incentive (LTI) policy**

The LTI policy of the Company is to set a component of annual remuneration of executives to be at risk, payable in equity in the Company and based on an assessment of long term performance over a period of no less than three years in duration. A share disposal restriction applies for one year from the expiry of the performance measurement period which extends the effective remuneration deferral to a total of four years.

##### **i. Purpose**

The purpose of the LTI Plan is to incentivise Senior Executives to deliver long term Group performance that will lead to sustainable superior returns for shareholders and to modulate the remuneration of Senior Executives relative to this performance.

##### **ii. Form of incentive**

Non US participants in the LTI plan receive a grant of Indeterminate Performance Rights that vest based on an assessment of performance against objectives over a defined Measurement Period.

US participants in the LTI plan receive a grant of Performance Rights that vest based on an assessment of performance against the same objectives over a defined Measurement Period. US participants receive shares for vested Performance Rights.

##### **iii. Measurement period**

The Measurement period is three financial years.

##### **iv. LTI grant**

The number of LTI Rights granted are calculated with reference to the stretch (maximum) LTI value divided by the volume weighted average closing share price in the first month of the measurement period (i.e. July each year).

Details of the FY2023 LTI grant are contained on page 43.

##### **v. Measures of long term performance**

Long term performance is measured in reference to three equally weighted metrics (i.e. 1/3 each):

- Indexed Total Shareholder Return (iTSR)
- Earnings per Share Growth (EPSG)
- Return on Equity (ROE)

Metrics are set so that Target performance is expected to be achieved 50 – 60% of the time and Stretch (Maximum) performance is expected to be achieved 10 – 20% of the time. The metrics are disclosed below.

##### **vi. Total shareholder return (TSR) measure**

The Board believes that TSR is the measure that has the strongest alignment with shareholders.

The Board utilises an absolute TSR premium to indexed TSR (iTSR) outcomes and avoids windfall gains / (losses) from changes in broad market movements in share prices.

Austal's iTSR is computed by comparing Austal's TSR against Standard and Poor's ASX 300 Industrials Total Return Index.

Austal's TSR is the sum of share price appreciation and dividends (assumed to be reinvested in shares) during the Measurement period. Share price appreciation is measured utilising a



1 month Volume Weighted Average Price (VWAP) at the beginning and the end of the measurement period (i.e. July in year 1 and June in year 3).

The Company TSR metric for the measurement period must be positive to ensure that the LTI will not reward executives when shareholders have lost value. None of the iTSR tranche will vest if the Company TSR is negative.

#### **vii. Earnings per share growth (EPSG) measure**

EPSG is an internal measure of performance which the Board encourages management to focus on.

EPSG is determined by calculating the compound annual growth rate (CAGR) from EPS in the last financial year prior to the 3 year measurement period, to the EPS in the final year of the 3 year measurement period.

- EPS equals Basic EPS as reported in the financial accounts of the relevant year.
- Actual EPSG results are compared against internal targets set by the Board.

#### **viii. Return on equity (ROE) measure**

Sustainability of ROE is a key element of creating sustainable shareholder wealth and hence ROE was adopted to help ensure that this is taken into account by management.

ROE is calculated by dividing:

- The average NPAT over the 3 year measurement period by;
- The day weighted average Contributed Equity + Retained Profits - Reserved Shares balance over the 3 year measurement period.

Actual ROE results are compared against internal targets set by the Board.

#### **ix. Board discretion**

The Board retains discretion to adjust vesting outcomes in the circumstances that the outcomes from applying the vesting scales alone would be deemed to be inappropriate. In exercising this discretion, the Board is required to take into account the Company performance from the perspective of shareholders over the relevant Measurement Period and consider whether specific participants:

- Engaged in any activities or communications that may cause harm to the operations or reputation of the Company or the Board;
- Took actions that caused harm or will cause harm to the Company's stakeholders;
- Took excessive risks or contributed to or may otherwise benefit from unacceptable cultures within the Company; or
- Exposed employees, the broader community or environment to excessive risks, including risks to health and safety.

The Board will also consider whether there has been a material misstatement in the Company's financial reports, which would unduly increase any award under the scheme.

#### **x. Vesting of performance rights**

Performance rights meeting the performance hurdles will vest at the end of the measurement period.

Participants are not required to make any payments at grant or at vesting.

**xi. Holding period**

Non US recipients of vested performance rights are subject to a one year holding period:

- Recipients are permitted to exercise their rights in order to receive shares, however;
- Recipients are prevented from selling their shares during the holding period.

This effectively extends the incentive period to four years and increases the accumulation of equity by executives to strengthen their alignment with shareholders.

**xii. Taxing point for US recipients**

The taxing point for US recipients of vested performance rights is at the time of vesting because there is no further risk of forfeiture. Consequently, Austal sell 50% of shares arising from vested performance rights immediately after vesting has occurred so that recipients can fund their tax liability and the remaining 50% of shares are subject to a one year holding period.

The difference between the realised proceeds from the sale of the first 50% of shares and the actual tax liability for each participant is paid to participants in cash.

**xiii. Specified disposal restrictions**

Performance Rights may not be disposed of or otherwise dealt with prior to exercise.

All shares acquired by participants as a consequence of exercising vested Performance Rights, shall be subject to a dealing restriction detailed in Austal's Share Trading Policy and insider trading restrictions.

**xiv. Cessation of employment during a measurement period**

A participant who resigns prior to the elapsing of the Measurement period in respect of which the grant is made will forfeit their entire unvested Performance Rights grant.

The Board may exercise its discretion to award some proportion of LTI under certain circumstances including consideration of whether the KMP was a good leaver up to the point of vesting.

Vested rights already held by a participant are not forfeited.

**xv. Clawback policy**

The Board may determine that a participant found to have harmed the interests of the Company or its Shareholders, will forfeit some or all of their unvested entitlements at any time. This includes fraud, defalcation, joining a competitor etc.

Unvested Performance Rights held that are not forfeited, will be retained for testing against the vesting conditions at the normal time.

**xvi. Change of control of the company**

The Board has determined that in the event of a Change of Control (including a takeover), LTI will vest on a pro-rata basis at the 'Target' level for the portion of the Performance Period that has elapsed at the date of the change of control. The Board retains discretion to vary this approach if it considers that it would generate an inappropriate outcome.



## 4. Executive KMP remuneration

### I. 5 year performance

The table below outlines Austal's performance over the last five years.

		Financial Year				
		2019	2020	2021	2022	2023
<b>Earnings measures</b>						
EBIT (Earnings before interest & tax)	\$'000	92,795	130,396	114,619	120,662	(4,842)
EBITDA (Earnings before interest, tax, depreciation & amortisation)	\$'000	135,001	176,139	160,326	165,350	54,973
NPAT (Net profit after tax)	\$'000	61,384	88,978	81,057	79,565	(13,774)
<b>EPS (Earnings per share)</b>						
	\$ / share	0.18	0.25	0.23	0.22	(0.04)
<b>Dividends paid</b>						
	\$ / share	0.06	0.06	0.09	0.08	0.07
<b>Share price</b>						
Closing	\$ / share	3.41	3.23	2.05	1.80	2.37

### II. FY2023 award opportunities

The tables below depict the Target and Stretch (Maximum) remuneration for KMP in FY2023 including:

- The Total Fixed Remuneration
- STI award opportunity if Target or Stretch STI KPI results are achieved
- LTI award opportunity if Target or Stretch LTI results are achieved

Awards are applied to Total Fixed Remuneration.

#### i. Target remuneration

KMP	TFR	STI Opportunity		LTI Opportunity		Total
	\$	% of TFR	\$	% of TFR	\$	\$
Mr Paddy Gregg	1,008,781	45%	453,951	50%	504,391	1,967,123
Mr Ian McMillan	533,000	40%	213,200	35%	186,550	932,750
Mr Rusty Murdaugh	796,005	65%	517,403	50%	398,003	1,711,411

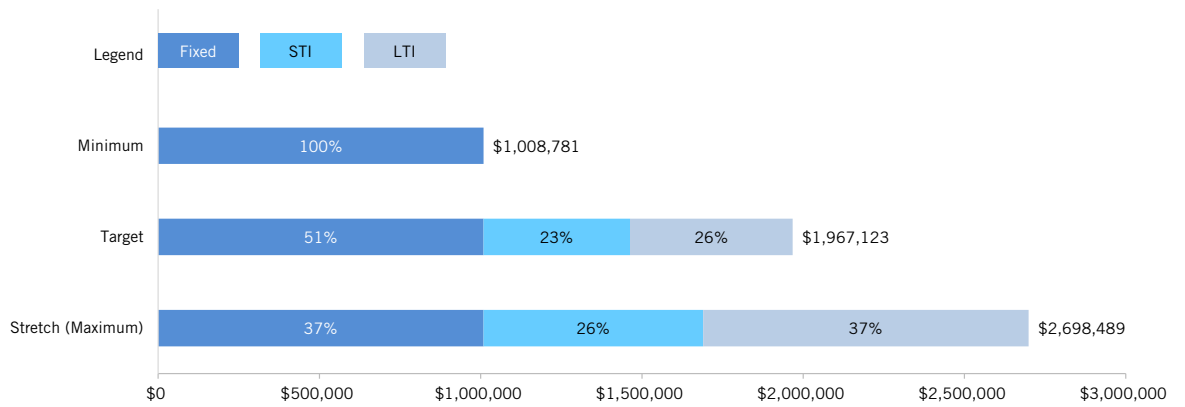
#### ii. Stretch (Maximum) remuneration

KMP	TFR	STI Opportunity		LTI Opportunity		Total
	\$	% of TFR	\$	% of TFR	\$	\$
Mr Paddy Gregg	1,008,781	68%	680,927	100%	1,008,781	2,698,489
Mr Ian McMillan	533,000	60%	319,800	70%	373,100	1,225,900
Mr Rusty Murdaugh	796,005	98%	776,105	100%	796,005	2,368,115

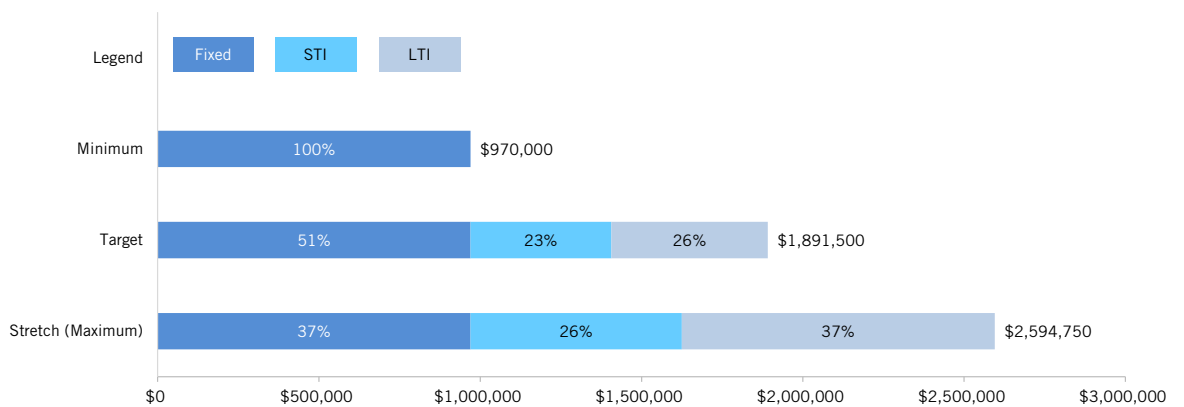
### III. CEO remuneration

These charts depict the Minimum, Target and Stretch (Maximum) remuneration opportunities that were available to the CEO and the breakdown between fixed remuneration (TFR) and variable remuneration (STI and LTI).

FY2023 CEO Remuneration - Mr Paddy Gregg



FY2022 CEO Remuneration - Mr Paddy Gregg





#### IV. STI targets and outcomes

The following KPI were selected because they were the most significant matters for each of the KMP that were expected to contribute to the success of the Company during FY2023, given the business plans approved by the Board at the commencement of the financial year.

The Company's EBIT (Earnings Before Interest and Tax) result did not exceed the required threshold of at least 85% of Budget therefore no STI was awarded for FY2023. The tables below show the outcomes of each performance measure during FY2023 but note the overall nil award.

##### Chief Executive Officer - Mr Paddy Gregg

Measures	Weight	Actual Performance			Targets			
		Below	Stretch	Award	Threshold	Target	Stretch	Actual
Group EBIT	30.00%			-	\$ 81 m	\$ 89 m	\$ 108 m	\$ (4.8)
Group Free Cash flow	10.00%			-	\$ 139 m	\$ 147 m	\$ 162 m	\$ 53 m
New Vessel Orders - USA	5.00%			78%	Commercial in Confidence			
New Vessel Orders - Australasia	20.00%			-	Commercial in Confidence			
Long term Sustainment Orders - Australasia	5.00%			66%	Commercial in Confidence			
Strategic Growth - USA	10.00%			67%	Commercial in Confidence			
Strategic Growth - Australasia	20.00%			5%	Commercial in Confidence			
<b>Total</b>	<b>100.00%</b>			<b>-</b>				

##### Chief Operating Officer Australasia - Mr Ian McMillan

Measures	Weight	Actual Performance			Targets			
		Below	Stretch	Award	Threshold	Target	Stretch	Actual
Australasia EBIT <sup>1</sup>	30.00%			-	\$ 11.8 m	\$ 16.1 m	\$ 24.6 m	\$ 9.6 m
Australasia Free Cash flow	10.00%			-	\$ 6.7 m	\$ 7.8 m	\$ 10.1 m	\$ (1.4) m
New Vessel Orders - Australasia	30.00%			-	Commercial in Confidence			
Strategic Growth - Australasia	25.00%			17%	Commercial in Confidence			
Safety (Total Recordable Incident Rate)	5.00%			-	-	1.9	1.7	2.1
<b>Total</b>	<b>100.00%</b>			<b>-</b>				

- Note that Australasia EBIT includes an allocation of Corporate Overhead for STI metric purposes and hence it doesn't match the segment note.

##### President USA - Mr Rusty Murdaugh

Measures	Weight	Actual Performance			Targets			
		Below	Stretch	Award	Threshold	Target	Stretch	Actual
USA Revenue (USD)	10.00%			37%	\$821	\$ 864 m	\$ 950 m	\$ 825 m
USA EBIT (USD)	20.00%			-	\$ 73 m	\$ 77 m	\$ 84 m	\$ 5 m
USA Free Cash flow (USD)	20.00%			66%	\$ 59 m	\$ 62 m	\$ 68 m	\$ 62 m
New Vessel Orders - USA	25.00%			100%	Commercial in Confidence			
Strategic Growth - USA	15.00%			50%	Commercial in Confidence			
Safety (Total Recordable Incident Rate)	10.00%			33%	2.4	2.3	2.0	2.4
<b>Total</b>	<b>100.00%</b>			<b>-</b>				

- The FY2023 STI opportunity for Mrs Christy Taylor was set before she was promoted to KMP, and therefore no further information has been provided. It is noted that the EBIT profit gate did apply to all STI in the group.

## V. LTI vesting

### i. FY2021 Performance rights grant

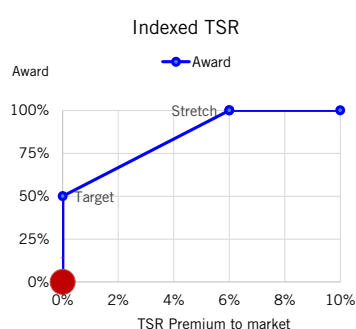
250,562 Performance Rights were granted to KMP in FY2021, who were still employed by Austal at 30 June 2023.

### ii. Measurement period

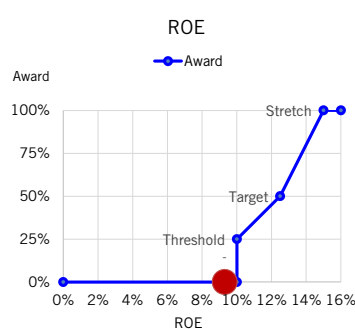
100% of the Performance Rights granted in FY2021 had a 3 year Measurement period from 1 July 2021 – 30 June 2023.

### iii. FY2021 LTI vesting performance

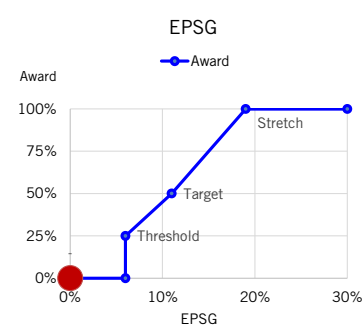
The performance criteria relating to the FY2021 grant of Performance Rights to KMP are detailed below resulting in a 0% vesting:



Indexed TSR = Austal TSR Premium to Market



ROE = NPAT / Equity (Excluding Reserves)



EPSG = CAGR EPS<sup>1</sup> (Base Year) to EPS (Final Year)

1. CAGR = Compound Annual Growth Rate.

### iv. FY2021 LTI vesting awards

KMP	Tranche	Weight	Granted	Vesting		Value @ Grant Date (\$)
				%	Number	
<b>VWAP @ Grant Date</b>						3.09
Mr Paddy Gregg	iTSR	33%	62,806	-	-	-
	ROE	33%	62,806	-	-	-
	EPSP	33%	62,806	-	-	-
	<b>Total</b>	<b>100%</b>	<b>188,418</b>	<b>-</b>	<b>-</b>	<b>-</b>
Mr Rusty Murdaugh	iTSR	33%	20,715	-	-	-
	ROE	33%	20,715	-	-	-
	EPSP	33%	20,715	-	-	-
	<b>Total</b>	<b>100%</b>	<b>62,144</b>	<b>-</b>	<b>-</b>	<b>-</b>

## VI. Realised Executive remuneration (non-statutory disclosure)

The Realised Remuneration tables below are provided to convey the actual remuneration awarded to KMP during FY2023 and FY2022 rather than the statutory disclosure required under the accounting standards and includes:

- The portion of TFR paid in cash.

- The portion of TFR contributed to superannuation plans or pension schemes.
- STI awarded but not yet paid.
- The value of LTI rights vesting following the conclusion of the relevant measurement period using the VWAP at the grant date.

#### FY2023

KMP	Total Fixed Remuneration				Payout <sup>1</sup>	FY2023 STI Awarded / Bonus			LTI	Total
	Cash \$	Super-annuation / Pension \$	Other <sup>8</sup> \$	Total \$	Leave \$	Indeterminate		Total \$	FY2021 Vesting \$	Total \$
						Cash \$	Rights \$			
Value @ Grant VWAP <sup>2</sup>									3.09	
Mr Paddy Gregg	981,281	27,500	-	1,008,781	-	-	-	-	-	1,008,781
Mr Ian McMillan	507,708	25,292	-	533,000	-	-	-	-	-	533,000
Mr Rusty Murdaugh <sup>4</sup>	796,005	109,774	34,545	940,324	45,923	-	-	-	-	986,247
Mr Geoff Buchanan <sup>5</sup>	511,641	53,722	83,595	648,958	-	75,000	-	75,000	-	723,958
Mr Christian Johnstone <sup>6</sup>	142,427	6,323	-	148,750	-	-	-	-	-	148,750
Mrs Christy Taylor <sup>7</sup>	82,405	8,240	2,459	93,104	10,301	-	-	-	-	103,405
<b>Total</b>	<b>3,021,467</b>	<b>230,851</b>	<b>120,599</b>	<b>3,372,917</b>	<b>56,224</b>	<b>75,000</b>	<b>-</b>	<b>75,000</b>	<b>-</b>	<b>3,504,141</b>

#### FY2022

KMP	Total Fixed Remuneration				Payout <sup>1</sup>	FY2022 STI Awarded / Bonus			LTI	Total
	Cash \$	Super-annuation / Pension \$	Other <sup>8</sup> \$	Total \$	Leave \$	Indeterminate		Total \$	FY2020 Vesting \$	Total \$
						Cash \$	Rights \$			
Value @ Grant VWAP <sup>2</sup>									3.82	
Mr Paddy Gregg	946,432	23,568	-	970,000	-	271,722	271,721	543,443	159,682	1,673,125
Mr Greg Jason <sup>3</sup>	351,726	14,029	-	365,755	249,073	-	-	-	-	614,828
Mr Ian McMillan	485,050	27,500	-	512,550	-	123,320	123,319	246,639	-	759,189
Mr Rusty Murdaugh <sup>4</sup>	703,564	75,977	123,400	902,941	38,224	579,539	-	579,539	84,931	1,605,635
Mr Geoff Buchanan <sup>5</sup>	314,971	31,497	51,101	397,569	-	122,607	-	122,607	-	520,176
<b>Total</b>	<b>2,801,743</b>	<b>172,571</b>	<b>174,501</b>	<b>3,148,815</b>	<b>287,297</b>	<b>1,097,188</b>	<b>395,040</b>	<b>1,492,228</b>	<b>244,613</b>	<b>5,172,953</b>

1. This balance represents the KMPs annual leave and/or long service leave entitlements either cashed out or paid out on termination.
2. Value @ Grant VWAP is the Volume Weighted Average Share Price utilised for the respective LTI grant.
3. Mr Greg Jason resigned effective 10 December 2021. Included in his cash TFR is an Eligible Termination Payment of \$100,000.
4. Mr Rusty Murdaugh was appointed as Interim President USA from February 2021 to September 2021 when appointed permanently. The STI Awarded in both years represents the full year award.
5. Mr Geoff Buchanan was appointed as Interim CFO on 22 November 2021. Mr Geoff Buchanan was not a part of the STI award opportunity. The FY2022 and FY2023 award represents a service bonus (FY2022) and retention bonus (FY2023: \$75,000 out of a total of \$150,000 payable at end of contract - 30 September 2023) respectively.
6. Mr Christian Johnstone was appointed as CFO on 3 April 2023. Mr Christian Johnstone was not a part of the STI award opportunity for FY2023.
7. Mrs Christy Taylor was promoted to Chief Operating Officer - Transformation USA on 8 May 2023.
8. This category is comprised of other monetary benefits such as car, housing and medical benefits.



## VII. Statutory remuneration disclosure

The following table outlines the remuneration received by Executive KMP during FY2023 and FY2022, prepared according to statutory disclosure requirements and accounting standards:

KMP	Fixed Remuneration					Variable Remuneration		Payout <sup>1</sup>	Total
	Salary <sup>2</sup> \$	Super-annuation / Pension \$	Other <sup>9</sup> \$	Long Service Leave Accrued \$	Total \$	STI / Bonus Accrued \$	LTI Accounting Expense <sup>3</sup> \$	Leave \$	Total \$
Mr Paddy Gregg	1,031,598	27,500	-	61,469	1,120,567	-	213,321	-	1,333,888
Mr Ian McMillan	503,408	25,292	-	2,663	531,363	-	189,161	-	720,524
Mr Rusty Murdaugh <sup>5</sup>	834,018	109,774	34,545	-	978,337	-	287,578	45,923	1,311,838
Mr Geoff Buchanan <sup>6</sup>	513,506	53,722	83,595	1,645	652,468	75,000	-	-	727,468
Mr Christian Johnstone <sup>7</sup>	153,587	6,323	-	301	160,211	-	-	-	160,211
Mrs Christy Taylor <sup>8</sup>	87,389	8,240	2,459	-	98,088	-	4,027	10,301	112,416
<b>Total</b>	<b>3,123,506</b>	<b>230,851</b>	<b>120,599</b>	<b>66,078</b>	<b>3,541,034</b>	<b>75,000</b>	<b>694,087</b>	<b>56,224</b>	<b>4,366,345</b>

KMP	Fixed Remuneration					Variable Remuneration		Payout <sup>1</sup>	Total
	Salary <sup>2</sup> \$	Super-annuation / Pension \$	Other <sup>9</sup> \$	Long Service Leave Accrued \$	Total \$	STI / Bonus Accrued \$	LTI Accounting Expense <sup>3</sup> \$	Leave \$	Total \$
Mr Paddy Gregg	987,165	23,568	-	20,558	1,031,291	543,443	492,417	-	2,067,151
Mr Greg Jason <sup>4</sup>	371,600	14,029	-	4,623	390,252	-	(378,023)	249,073	261,302
Mr Ian McMillan	496,627	27,500	-	1,474	525,601	246,639	81,930	-	854,170
Mr Rusty Murdaugh <sup>5</sup>	739,171	75,977	123,400	-	938,548	579,539	266,974	38,224	1,823,285
Mr Geoff Buchanan <sup>6</sup>	325,936	31,497	51,101	702	409,236	122,607	-	-	531,843
<b>Total</b>	<b>2,920,499</b>	<b>172,571</b>	<b>174,501</b>	<b>27,357</b>	<b>3,294,928</b>	<b>1,492,228</b>	<b>463,298</b>	<b>287,297</b>	<b>5,537,751</b>

1. This balance represents the KMPs annual leave and/or long service leave entitlements either cashed out or paid out on termination.
2. Salary represents cash-based salary expensed during the reporting period including annual leave provision adjustments and therefore may not equal the cash received by the KMP.
3. The LTI expense represents the portion of the independent valuation of active LTI plans expensed through the Profit and Loss in accordance with AASB 2.
4. Mr Greg Jason resigned effective 10 December 2021.
5. Mr Rusty Murdaugh was appointed as Interim President USA from February 2021 to September 2021 when appointed permanently. The STI Awarded in both years represents the full year award.
6. Mr Geoff Buchanan was appointed as Interim CFO on 22 November 2021. Mr Geoff Buchanan was not a part of the STI award opportunity. The FY2022 and FY2023 award represents a service bonus (FY2022) and retention bonus (FY2023: \$75,000 out of a total of \$150,000 payable at end of contract - 30 September 2023) respectively.
7. Mr Christian Johnstone was appointed as CFO on 3 April 2023. Mr Christian Johnstone was not a part of the STI award opportunity for FY2023.
8. Mrs Christy Taylor was promoted to Chief Operating Officer - Transformation USA on 8 May 2023.
9. This category is comprised of other monetary benefits such as car, housing and medical benefits.

## VIII. Reconciliation of realised remuneration and statutory remuneration

The following table reconciles the realised remuneration received by Executive KMP during FY2023 and FY2022 with the statutory remuneration disclosures for those years.

FY2023	Remuneration			Explanation of Variance			
	Realised \$	Statutory \$	Variance \$	LTI Vesting versus Expense \$	Long Service Leave Provision \$	Leave Provision Movement \$	Total \$
<b>KMP</b>							
Mr Paddy Gregg	1,008,781	1,333,888	(325,107)	(213,321)	(61,469)	(50,317)	(325,107)
Mr Ian McMillan	533,000	720,524	(187,524)	(189,161)	(2,663)	4,300	(187,524)
Mr Rusty Murdaugh	986,247	1,311,838	(325,591)	(287,578)	-	(38,013)	(325,591)
Mr Geoff Buchanan	723,958	727,468	(3,510)	-	(1,645)	(1,865)	(3,510)
Mr Christian Johnstone	148,750	160,211	(11,461)	-	(301)	(11,160)	(11,461)
Mrs Christy Taylor	103,405	112,416	(9,011)	(4,027)	-	(4,984)	(9,011)

FY2022	Remuneration			Explanation of Variance			
	Realised \$	Statutory \$	Variance \$	LTI Vesting versus Expense \$	Long Service Leave Movement \$	Leave Provision Movement \$	Total \$
<b>KMP</b>							
Mr Paddy Gregg	1,673,125	2,067,151	(394,026)	(332,735)	(20,558)	(40,733)	(394,026)
Mr Greg Jason <sup>1</sup>	614,828	261,302	353,526	378,023	(4,623)	(19,874)	353,526
Mr Ian McMillan	759,189	854,170	(94,981)	(81,930)	(1,474)	(11,577)	(94,981)
Mr Rusty Murdaugh	1,605,635	1,823,285	(217,650)	(182,042)	-	(35,607)	(217,650)
Mr Geoff Buchanan	520,176	531,843	(11,667)	-	(702)	(10,965)	(11,667)

1. Mr Greg Jason's significant 'LTI Vesting versus Expense' variance represents the difference between zero vesting of LTI rights as disclosed in the Realised Remuneration table and the reversal of the previously booked Share Based Payment expense in relation to the forfeited FY2020 and FY2021 grants within the Statutory Remuneration table.

## 5. Non-Executive Director remuneration

### I. Application

The Non-Executive Director Remuneration Policy applies to Non-Executive Directors (NED) of the Company in their capacity as directors and as members of committees.

### II. Fee policy

The fee policy is designed to ensure that remuneration is reasonable, appropriate, and produces outcomes that fall within the fee limit, at each point of being assessed.

#### I. Fee cap

The Remuneration for NED is managed within the aggregate fee limit (AFL) of \$3,000,000 approved by shareholders of the Company. The cap has remained unchanged since listing on the Australian Securities Exchange (ASX) in 1998.

## ii. Board & committee fees

- Remuneration is composed of Board fees and Committee fees. Both fee types include superannuation to the extent applicable to the incumbent.
- NED remuneration is targeted to be at the 50th percentile (where 50% of a reasonable comparator group are above the median level and 50% are below the median level) for FY2023.
- NED remuneration was last externally benchmarked in FY2022. The fees were adjusted for CPI in FY2023.
- Remuneration for the current Chairman of the Board reflects his continued high level of contribution to the Company and the Board.
- Committee fees recognise additional contributions to the work of the Board by members of committees. They are similarly referenced to the benchmark group as above.

## iii. NED fee rates

The following table outlines the NED fee policy rates that were applicable:

FY2023	Role		
	Chair \$	Deputy Chair \$	Member \$
Board of Directors	211,894	116,064	105,664
Audit & Risk Committee	20,800	N/A	10,400
Nomination & Remuneration Committee	20,800	N/A	10,400

FY2022	Role		
	Chair \$	Deputy Chair \$	Member \$
Board of Directors	203,360	111,760	101,600
Audit & Risk Committee	20,000	N/A	10,000
Nomination & Remuneration Committee	20,000	N/A	10,000

## iv. Termination benefits

Termination benefits are not paid to NED.

## III. Share rights

The NED have agreed annually with the Company to receive 25% of their Board fees (excluding Committee fees) in the form of share rights in order to accumulate equity holdings up to the equivalent of one year of Board fees (excluding Committee fees).

The minimum equity holding will be computed in July of each year based upon the volume weighted average price of Austal shares in the month of June and Board fees for the financial year ahead. The measurement date for the share rights is the VWAP of the last 5 trading days of each month.

The share rights provided to Mr Giles Everist, Mrs Sarah Adam-Gedge and Mr Chris Indermaur were approved by shareholders during the 2022 Annual General Meeting.

KMP	Earned Number	Average fair value per right \$	Fair value \$
Mr Giles Everist	4,727	2.46	11,646
Mrs Sarah Adam-Gedge	13,483	2.09	28,016
Mr Chris Indermaur	12,659	2.09	26,416



#### IV. NED remuneration in FY2023

The following table outlines the remuneration received by NED of the Company during FY2023 and the previous year, prepared according to statutory disclosure requirements and applicable accounting standards:

	Board Fees				Committee Fees			Total
	Cash	Super-annuation	Share Rights	Total	Cash	Super-annuation	Total	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Mr John Rothwell	191,759	20,135	-	211,894	9,050	950	10,000	221,894
Mr Giles Everist <sup>1,4</sup>	31,806	3,340	11,646	46,792	12,050	1,265	13,315	60,107
Mrs Sarah Adam-Gedge <sup>4</sup>	79,682	8,367	28,016	116,065	28,235	2,965	31,200	147,265
Mr Chris Indermaur <sup>1,4</sup>	71,717	7,530	26,416	105,663	23,181	2,434	25,615	131,278
Mr Mick McCormack <sup>2,4</sup>	118,714	12,465	-	131,179	18,100	1,901	20,001	151,180
Mr Lee Goddard <sup>3,4</sup>	47,812	5,020	-	52,832	9,050	950	10,000	62,832
Total	541,490	56,857	66,078	664,425	99,666	10,465	110,131	774,556

	Board Fees				Committee Fees			Total
	Cash	Super-annuation	Share Rights	Total	Cash	Super-annuation	Total	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Mr John Rothwell	184,869	18,487	-	203,356	9,091	909	10,000	213,356
Mr Giles Everist <sup>1</sup>	92,364	9,236	25,400	127,000	27,273	2,727	30,000	157,000
Mrs Sarah Adam-Gedge	81,233	2,587	27,940	111,760	30,000	-	30,000	141,760
Mr Chris Indermaur <sup>1</sup>	92,364	9,236	25,400	127,000	18,182	1,818	20,000	147,000
Mr Mick McCormack <sup>2</sup>	69,273	6,927	-	76,200	18,182	1,818	20,000	96,200
Total	520,103	46,473	78,740	645,316	102,728	7,272	110,000	755,316

- Mr Giles Everist and Mr Chris Indermaur were overpaid \$25,400 in cash respectively, for board fees which should have been withheld for share rights during the prior year. In FY2023, Mr Giles Everist and Mr Chris Indermaur both repaid the prior year overpayment.
- Mr Mick McCormack's FY2022 board fees paid were \$25,400 below the NED rates due to an administrative error. The shortfall, inclusive of superannuation of 10% was paid in full in FY2023.
- Mr Lee Goddard was appointed a NED in January 2023.
- Mr Giles Everist's FY2023 board fees paid were \$533 below the NED rates due to an administrative error.  
Mr Chris Indermaur's and Mr Mick McCormack's FY2023 board fees paid were \$800 below the NED rates due to an administrative error.  
Mr Lee Goddard's FY2023 board fees paid were \$400 below the NED rates due to an administrative error.  
The shortfall will be paid in full in FY2024.

## 6. Equity instruments held by KMP

### I. FY2021 performance rights vesting

Further information relating to the FY2021 Performance Rights vesting is provided on page 36.

### II. FY2022 performance rights

#### i. Performance rights

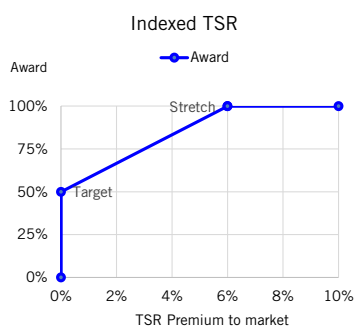
945,219 Performance rights were granted to KMP in FY2022, who were still employed by Austal and whose rights were not lapsed, forfeited or vested at 30 June 2023.

#### ii. Measurement period

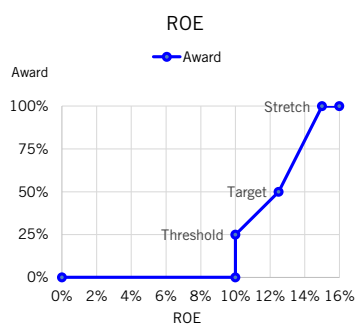
100% of the Performance rights granted in FY2022 have a 3 year Measurement period from 1 July 2021 – 30 June 2024.

#### iii. Performance criteria

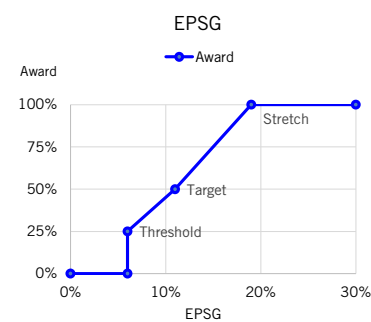
The performance criteria relating to the FY2022 grant of Performance rights to KMP are detailed below:



Indexed TSR = Austal TSR Premium to Market



ROE = NPAT / Equity (Excluding Reserves)



EPSG = CAGR EPS<sup>1</sup> (Base Year) to EPS (Final Year)

1. CAGR = Compound Annual Growth Rate.

### III. FY2023 performance rights grant

#### i. Performance rights grant

Performance rights granted to KMP in FY2023 are depicted in the table below.

The Fair Value per right has been determined by an independent valuer in accordance with AASB 2 *Share Based Payments* and does not match the Stretch LTI opportunity as detailed in the Executive KMP remuneration 2023 award opportunities on page 33.

Name	Rights granted			Total	Value @ grant date (\$)
	iTSR	ROE	EPG		
Fair Value per right	\$ 1.54	\$ 2.36	\$ 2.36	\$ 2.09	\$ 2.09
Mr Paddy Gregg	138,954	138,954	138,954	416,862	870,269
Mr Ian McMillan	51,397	51,397	51,397	154,191	321,899
Mr Rusty Murdaugh	99,640	99,640	99,640	298,920	624,045
Total	289,991	289,991	289,991	869,973	1,816,213

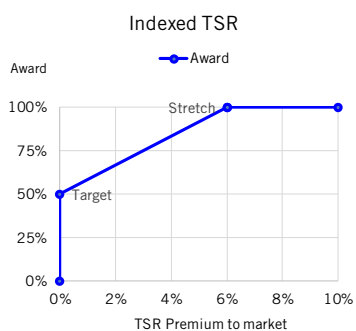
869,973 Performance rights were granted to KMP in FY2023, who were still employed by Austal and whose rights were not lapsed, forfeited or vested at 30 June 2023.

#### ii. Measurement period

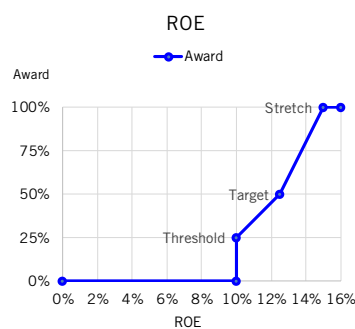
100% of the Performance rights granted in FY2023 have a 3 year Measurement period from 1 July 2023 – 30 June 2025.

#### iii. Performance criteria

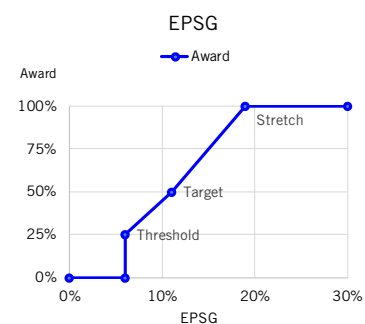
The performance criteria relating to the FY2023 grant of Performance rights to KMP are detailed below:



Indexed TSR = Austal TSR Premium to Market



ROE = NPAT / Equity (Excluding Reserves)



EPG = CAGR EPS<sup>1</sup> (Base Year) to EPS (Final Year)

1. CAGR = Compound Annual Growth Rate.



## IV. Changes in equity held by KMP

	Balance at 30 June 2022	FY2023 Movements						Balance at 30 June 2023	Vested	Unvested
		Other <sup>1,4</sup>	Granted	Vested	Exercised	Lapsed / Forfeited	Bought (Sold)			
<b>Executives</b>										
<b>Mr Paddy Gregg</b>										
Shares	242,399	-	-	-	-	-	-	242,399	242,399	-
Indeterminate Rights <sup>3</sup>	292,530	-	149,153	-	-	-	-	441,683	441,683	-
Performance Rights	647,853	-	416,862	-	-	(188,418)	-	876,297	-	876,297
<b>Total</b>	<b>1,182,782</b>	<b>-</b>	<b>566,015</b>	<b>-</b>	<b>-</b>	<b>(188,418)</b>	<b>-</b>	<b>1,560,379</b>	<b>684,082</b>	<b>876,297</b>
<b>Mr Ian McMillan</b>										
Shares	-	-	-	-	20,582	-	-	20,582	20,582	-
Indeterminate Rights <sup>3</sup>	20,582	-	67,692	-	(20,582)	-	-	67,692	67,692	-
Performance Rights	169,938	-	154,191	-	-	-	-	324,129	-	324,129
<b>Total</b>	<b>190,520</b>	<b>-</b>	<b>221,883</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>412,403</b>	<b>88,274</b>	<b>324,129</b>
<b>Mr Rusty Murdaugh</b>										
Shares	92,443	-	-	-	22,249	-	(11,125)	103,567	103,567	-
Share Rights	22,249	-	-	-	(22,249)	-	-	-	-	-
Performance Rights	377,990	-	298,920	-	-	(62,144)	-	614,766	-	614,766
<b>Total</b>	<b>492,682</b>	<b>-</b>	<b>298,920</b>	<b>-</b>	<b>-</b>	<b>(62,144)</b>	<b>(11,125)</b>	<b>718,333</b>	<b>103,567</b>	<b>614,766</b>
<b>Mrs Christy Taylor</b>										
Shares	-	7,943	-	-	-	-	-	7,943	7,943	-
Service Rights	-	32,606	-	-	-	-	-	32,606	-	32,606
Performance Rights	-	31,401	-	-	-	-	-	31,401	-	31,401
<b>Total</b>	<b>-</b>	<b>71,950</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>71,950</b>	<b>7,943</b>	<b>64,007</b>
<b>Mr Christian Johnstone</b>										
Shares	-	-	-	-	-	-	-	-	-	-
Indeterminate Rights <sup>3</sup>	-	-	-	-	-	-	-	-	-	-
Performance Rights	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Non-Executive Directors</b>										
<b>Mr John Rothwell</b>										
Shares	32,761,692	-	-	-	-	-	-	32,761,692	32,761,692	-
<b>Total</b>	<b>32,761,692</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>32,761,692</b>	<b>32,761,692</b>	<b>-</b>
<b>Mr Giles Everist</b>										
Shares	30,441	-	-	-	22,487	-	-	(52,928)	-	-
Share Rights	17,760	-	4,727	-	(22,487)	-	-	-	-	-
<b>Total</b>	<b>48,201</b>	<b>-</b>	<b>4,727</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(52,928)</b>	<b>-</b>	<b>-</b>
<b>Mrs Sarah Adam-Gedge</b>										
Shares	20,000	-	-	-	-	-	-	20,000	20,000	-
Share Rights	52,844	-	13,483	-	-	-	-	66,327	66,327	-
<b>Total</b>	<b>72,844</b>	<b>-</b>	<b>13,483</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>86,327</b>	<b>86,327</b>	<b>-</b>
<b>Mr Chris Indermaur</b>										
Shares	-	-	-	-	-	-	-	-	-	-
Share Rights	36,407	-	12,659	-	-	-	-	49,066	49,066	-
<b>Total</b>	<b>36,407</b>	<b>-</b>	<b>12,659</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>49,066</b>	<b>49,066</b>	<b>-</b>
<b>Mr Mick McCormack</b>										
Shares	106,920	-	-	-	-	-	-	106,920	106,920	-
Share Rights	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>106,920</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>106,920</b>	<b>106,920</b>	<b>-</b>
<b>Mr Lee Goddard</b>										
Shares	-	-	-	-	-	-	-	-	-	-
Share Rights	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

1. Denotes the shares and rights held by Mrs Christy Taylor at the time of her promotion to KMP in May 2023.

2. Denotes the shares held by Mr Giles Everist at the time of his resignation, 9 December 2022.

3. Further information on Indeterminate rights is provided in the Executive KMP remuneration policy.

4. Mr Lee Goddard and Mr Christian Johnstone did not have any equity holdings at the time of their appointment nor movements in FY2023.

## V. Minimum equity holdings of KMP and NED employed at 30 June 2023

Some KMP and all NED (that have been approved by shareholders to maintain a minimum equity holding) are required to accumulate and maintain a minimum level of equity holding (Equivalent shares) with value equal to or greater than a specified percentage of annual TFR.

Shares, Share Rights and vested Indeterminate Rights all contribute toward the satisfaction of the minimum equity holding. Unvested Performance Rights do not contribute toward the target.

	Equity Holding at 30 June 2023		FY2023	Equity Holding % of TFR		Target
	Equiv't Shares	Value (\$)	TFR (\$)	30 Jun 2023	Target	Introduced
Value / share		2.37				
<b>Executives</b>						
Mr Paddy Gregg	684,082	1,621,274	1,008,781	161%	100%	Jan 2021
<b>Non-Executive Directors</b>						
			<b>Board Fees<sup>1</sup></b>			
Mr John Rothwell	32,761,692	77,645,210	211,894	36643%	100%	Nov 2017
Mr Giles Everist <sup>2</sup>	-	-	105,664	-	100%	Nov 2017
Mrs Sarah Adam-Gedge	86,327	204,595	116,064	176%	100%	Nov 2017
Mr Chris Indermaur	49,066	116,286	105,664	110%	100%	Oct 2018
Mr Mick McCormack	106,920	253,400	105,664	240%	100%	Sep 2020

1. Includes Board Fees and excludes Committee Fees.

2. Denotes the shares held by Mr Giles Everist at the time of his resignation, 9 December 2022.

## 7. Other related matters

### I. Board composition

The NRC reviews the structure, size and composition of the Board annually, taking inputs from investors and other independent advisors received during the year into account. The current practice continues of maintaining at least three independent NED on the Board.

The Committee also notes the Chairman at Austal is aged over 70 years but agree that the Chairman's intimate knowledge of the shipbuilding industry, of Austal and its major customers, together with his demonstrated high level of commitment, meant that he remains a significant asset to the Group.

### II. Details of contractual provisions for KMP

Name	Employer	Duration	Termination Notice Period		Termination Benefits <sup>1</sup>
			Group	Individual	
Mr Paddy Gregg	Austal Limited	Unlimited	6 months	6 months	6 months
Mr Ian McMillan	Austal Ships Pty Ltd	Unlimited	6 months	6 months	6 months
Mr Rusty Murdaugh	Austal USA LLC	Unlimited	None	None	None
Mr Geoff Buchanan	Austal Limited	6 months	1 month	1 month	Nil
Mr Christian Johnstone	Austal Limited	Unlimited	3 months	3 months	3 months
Mrs Christy Taylor	Austal USA LLC	Unlimited	None	None	None

1. The Termination Benefit Limit under the Corporations Act is 12 months of the average prior 3 years salary unless Shareholder approval is obtained.

Austal may choose to terminate the contracts immediately by making a payment equal to the Group Notice Period fixed remuneration in lieu of notice. Executives are not entitled to this termination payment in the event of termination for serious misconduct or other nominated circumstances.

Executives will be entitled to the payment of any fixed remuneration calculated up to the termination date, any leave entitlement accrued at the termination date and any payment or award of STI or LTI permitted under the remuneration policy upon termination of employment is described in the relevant sections of this report.

All NED enter into a service agreement with the Company in the form of a letter of appointment on appointment to the Board. The letter summarises the Board policies and terms, including compensation relevant to each director. The appointment letters specify a term of three years before each NED is required to be put forward for re-election in accordance with regulatory requirements.

### **III. Other transactions with KMP**

There were no other transactions involving KMP other than compensation and transactions concerning shares and performance rights as discussed in other sections of the Remuneration Report.

### **IV. Remuneration of KMP at Austal USA**

Pursuant to mandatory measures in place to mitigate foreign ownership, control and influence (FOCI), the remuneration of KMP and executives at Austal's wholly owned subsidiary, Austal USA, is set by the Board of Austal USA. This includes determination of the extent to which any performance measures have been met for long and short term incentive eligibility.

### **V. Use of external remuneration consultants**

The Board approved and engaged an external remuneration consultant to provide KMP remuneration recommendations and advice during the reporting period. The consultants and the amount payable for the information and work that led to their recommendations are listed below:

#### **i. Korn Ferry**

Korn Ferry were engaged for the following services during FY2023:

- Benchmarking for Executive remuneration in FY2023 (\$44,004 excluding GST).

#### **ii. Independence from Executive KMP**

The Board is satisfied that the KMP remuneration recommendations received were free from undue influence from KMP to whom the recommendations related for the following reasons:

- the policy for engaging external remuneration consultants is being adhered to and is operating as intended.
- the Board has been closely involved in all dealings with the external remuneration consultants.
- each KMP remuneration recommendation received during the year was accompanied by a legal declaration from the consultant to the effect that their advice was provided free from undue influence from the KMP to whom the recommendations related.

End of Remuneration Report



## Auditor independence

# Deloitte.

Deloitte Touche Tohmatsu  
ABN 74 490 121 060

Brookfield Place, Tower 2  
123 St Georges Terrace  
Perth WA 6000  
GPO Box A46  
Perth WA 6837 Australia

Tel: +61 8 9365 7000  
Fax: +61 8 9365 7001  
[www.deloitte.com.au](http://www.deloitte.com.au)

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

31 August 2023

Dear Board Members

### **Auditor's Independence Declaration to 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 audit of the financial statements of Austal Limited for the year ended 30 June 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 audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully



**DELOITTE TOUCHE TOHMATSU**



**David Newman**  
Partner  
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.  
Member of Deloitte Asia Pacific Limited and the Deloitte Network

# Consolidated statement of profit and loss and other comprehensive income for the year ended 30 June 2023

	Notes	2023 \$'000	2022 \$'000
<b>Continuing operations</b>			
Revenue	4	1,585,034	1,429,044
Cost of sales		(1,485,930)	(1,198,762)
<b>Gross profit</b>		<b>99,104</b>	<b>230,282</b>
Other income and expenses	5	24,040	7,612
Administration expenses		(108,221)	(94,546)
Marketing expenses		(19,765)	(22,686)
Finance income	5	1,784	135
Finance costs	5	(12,456)	(8,369)
<b>(Loss) / profit before income tax</b>		<b>(15,514)</b>	<b>112,428</b>
Income tax benefit / (expense)	9	1,740	(32,863)
<b>(Loss) / profit after tax</b>		<b>(13,774)</b>	<b>79,565</b>
<b>Other comprehensive income (OCI)</b>			
<b>Amounts that may subsequently be reclassified to profit and loss:</b>			
Cash flow hedges			
- Net (loss) / gain		(4,698)	2,458
- Income tax benefit / (expense)	9	1,514	(752)
- Total		(3,184)	1,706
Foreign currency translations			
- Net gain		22,830	53,680
- Total		22,830	53,680
<b>Amounts not to be reclassified to profit and loss in subsequent periods:</b>			
Asset revaluation reserve			
- Net gain		59,439	54,773
- Income tax expense	9	(14,302)	(13,858)
- Total		45,137	40,915
<b>Other comprehensive income for the period</b>		<b>64,783</b>	<b>96,301</b>
<b>Total comprehensive income for the year</b>		<b>51,009</b>	<b>175,866</b>
<b>(Loss) / earnings per share (\$ per share)</b>			
Basic (loss) / earnings per share	6	(0.038)	0.220
Diluted (loss) / earnings per share	6	(0.038)	0.219

The above consolidated statement of profit and loss and other comprehensive income should be read in conjunction with the accompanying notes.

# Consolidated statement of financial position as at 30 June 2023

	Notes	2023 \$'000	2022 \$'000
<b>Assets</b>			
<b>Current</b>			
Cash and cash equivalents	10	179,201	240,113
Inventories and work in progress	4, 17	329,137	263,070
Trade and other receivables	15	135,047	132,085
Prepayments	16	45,730	13,012
Derivatives	28, 29	1,358	5,835
Income tax receivable	9	117	16,955
Total		690,590	671,070
<b>Non - current</b>			
Property, plant and equipment	20	962,541	799,364
Intangible assets and goodwill	22	38,328	37,525
Prepayments	16	52,209	3,959
Derivatives	28, 29	87	64
Right of use assets	21	160,468	152,513
Other financial assets	25	16,289	14,933
Deferred tax assets	9	6,916	10,017
Total		1,236,838	1,018,375
<b>Total</b>		1,927,428	1,689,445
<b>Liabilities</b>			
<b>Current</b>			
Progress payments received in advance	4	(217,212)	(99,084)
Trade and other payables	18	(134,586)	(151,726)
Provisions	19	(125,795)	(98,325)
Derivatives	28, 29	(1,127)	(1,734)
Income tax payable	9	(9,920)	(195)
Lease liabilities	21	(4,982)	(4,198)
Deferred grant income	14	(15,324)	(9,728)
Total		(508,946)	(364,990)
<b>Non - current</b>			
Interest bearing loans and borrowings	11	(129,499)	(124,515)
Provisions	19	(76,394)	(2,182)
Derivatives	28, 29	(357)	(584)
Lease liabilities	21	(105,976)	(105,406)
Deferred grant income	14	(100,634)	(93,306)
Deferred tax liabilities	9	(56,804)	(74,177)
Total		(469,664)	(400,170)
<b>Total</b>		(978,610)	(765,160)
<b>Net assets</b>		948,818	924,285
<b>Equity attributable to owners of the parent</b>			
Contributed equity	13	144,518	143,932
Reserves		369,147	302,454
Retained earnings		435,153	477,899
<b>Total</b>		948,818	924,285

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.



# Consolidated statement of changes in equity for the year ended 30 June 2023

	Issued Capital \$'000	Reserved Shares <sup>1</sup> \$'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
<b>Equity at 1 July 2021</b>	<b>142,558</b>	<b>(892)</b>	<b>427,108</b>	<b>66,131</b>	<b>7,989</b>	<b>2,075</b>	<b>(17,594)</b>	<b>146,663</b>	<b>774,038</b>
<b>Comprehensive income</b>									
Profit for the year	-	-	79,565	-	-	-	-	-	79,565
Other comprehensive income / (loss)	-	-	-	53,680	-	1,706	-	40,915	96,301
Total	-	-	79,565	53,680	-	1,706	-	40,915	175,866
<b>Other equity transactions</b>									
Dividends provided for or paid	-	-	(28,870)	-	-	-	-	-	(28,870)
Share based payments expense	-	-	-	-	2,850	-	-	-	2,850
Shares issued to employee share trust	3,675	(3,675)	-	-	-	-	-	-	-
Shares or proceeds transferred to beneficiaries	3	2,263	-	-	(2,266)	-	-	-	-
Remeasurement gain on retirement benefits	-	-	-	-	305	-	-	-	305
Other	-	-	96	-	-	-	-	-	96
Total	3,678	(1,412)	(28,774)	-	889	-	-	-	(25,619)
<b>Movement</b>	<b>3,678</b>	<b>(1,412)</b>	<b>50,791</b>	<b>53,680</b>	<b>889</b>	<b>1,706</b>	<b>-</b>	<b>40,915</b>	<b>150,247</b>
<b>Equity at 30 June 2022</b>	<b>146,236</b>	<b>(2,304)</b>	<b>477,899</b>	<b>119,811</b>	<b>8,878</b>	<b>3,781</b>	<b>(17,594)</b>	<b>187,578</b>	<b>924,285</b>
<b>Comprehensive income</b>									
(Loss) for the year	-	-	(13,774)	-	-	-	-	-	(13,774)
Other comprehensive income / (loss)	-	-	-	22,830	-	(3,184)	-	45,137	64,783
Total	-	-	(13,774)	22,830	-	(3,184)	-	45,137	51,009
<b>Other equity transactions</b>									
Dividends provided for or paid	-	-	(28,972)	-	-	-	-	-	(28,972)
Share based payments expense	-	-	-	-	2,442	-	-	-	2,442
Shares issued to employee share trust	1,459	(1,459)	-	-	-	-	-	-	-
Shares or proceeds transferred to beneficiaries	80	506	-	-	(586)	-	-	-	-
Remeasurement gain on retirement benefits	-	-	-	-	54	-	-	-	54
Other	-	-	-	-	-	-	-	-	-
Total	1,539	(953)	(28,972)	-	1,910	-	-	-	(26,476)
<b>Movement</b>	<b>1,539</b>	<b>(953)</b>	<b>(42,746)</b>	<b>22,830</b>	<b>1,910</b>	<b>(3,184)</b>	<b>-</b>	<b>45,137</b>	<b>24,533</b>
<b>Equity at 30 June 2023</b>	<b>147,775</b>	<b>(3,257)</b>	<b>435,153</b>	<b>142,641</b>	<b>10,788</b>	<b>597</b>	<b>(17,594)</b>	<b>232,715</b>	<b>948,818</b>

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

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

# Consolidated statement of cash flows for the year ended 30 June 2023

	Notes	2023 \$'000	2022 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		1,660,053	1,331,964
Payments to suppliers and employees		(1,566,307)	(1,261,203)
Income tax benefit / (paid)		3,640	(28,339)
Interest paid		(12,456)	(5,058)
Interest received	5	1,784	135
Net cash from operating activities	7	86,714	37,499
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	20	(126,557)	(116,329)
Payment for intangible assets	22	(2,066)	(767)
Payment for right of use asset	21	-	(47,820)
Proceeds from sale of property, plant and equipment		1,063	1,398
Proceeds from disposal of assets held for sale		-	4,383
Receipts of government infrastructure grants		24,785	31,625
Net cash used in investing activities		(102,775)	(127,510)
<b>Cash flows from financing activities</b>			
Dividends paid		(28,972)	(28,870)
Principal component of lease payments	21	(9,088)	(8,638)
Payment of borrowing costs	12	-	(823)
Net cash used in financing activities		(38,060)	(38,331)
<b>Net decrease in cash and cash equivalents</b>		(54,121)	(128,342)
<b>Cash and cash equivalents</b>			
Cash and cash equivalents at beginning of year		240,113	346,899
Net decrease in cash and cash equivalents		(54,121)	(128,342)
Net foreign exchange differences		(6,791)	21,556
Cash and cash equivalents at end of year	10	179,201	240,113

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

# Notes to the consolidated financial statements

## Basis of preparation

### Note 1 Corporate information

The financial report of the Austal Limited Group of Companies (the Group or the Company) for the year ended 30 June 2023 was authorised for issue in accordance with a resolution of the Directors on 31 August 2023.

Austal Limited is a limited liability company incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange (ASX) under the code ASB.

The principal activities of the Group during the year were the design, manufacture and sustainment of high performance vessels. These activities were unchanged from the previous year.

### Note 2 Basis of preparation

#### I Introduction

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and the Australian Accounting Standards Board (AASB).

The financial report also complies with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board.

The financial report has been prepared on a historical cost basis, except for derivative financial instruments and land and buildings that have been measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) (unless otherwise stated) under the option available to the Group under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016 / 191. The Company is an entity to which the Instrument applies.

The financial report presents the figures of the consolidated entity, unless otherwise stated.

Austal Limited is a for profit entity.

#### II Reporting structure

The notes to the consolidated financial statements have been divided into eight main sections as follows:

##### 1. Basis of preparation

This section focuses on the basis of consolidation, foreign currency transactions and translation, accounting judgments and estimates, new and amended accounting standards adopted by the Group, and other new accounting standards issued but not yet effective.

##### 2. Current year performance

This section focuses on the results and performance of the Group, including profitability, earnings per share, cash generation, and the return of cash to shareholders via dividends.



### **3. Capital structure**

This section focuses on the long term funding of the Group including cash, interest bearing loans and borrowings, contributed equity and Government grants.

### **4. Working capital**

This section focuses on shorter term working capital concepts such as trade receivables, trade payables, work in progress and inventories, and provisions.

### **5. Infrastructure & other assets**

This section focuses on property, plant and equipment, intangibles, impairment and other assets.

### **6. Financial risk management**

This section focuses on the Group's approach to financial risk management, fair value measurements, foreign exchange hedging and the associated derivative financial instruments.

### **7. Unrecognised items**

This section focuses on commitments and contingencies that are not recognised in the financial statements and events occurring after the balance date.

### **8. The Group, management and related parties**

This section focuses on the corporate structure of the Group, parent entity data, key management personnel compensation and related party transactions.

## **III Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Group for the year ended 30 June 2023.

Subsidiaries are all of those entities over which the Group has power over the entity, exposure or rights to variable returns from its involvement with the entity and the ability to use its power over the entity to affect its returns. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Financial statements of foreign controlled entities presented in accordance with overseas accounting principles are adjusted to comply with Group policy and generally accepted accounting principles in Australia for consolidation purposes. All intercompany balances, transactions, unrealised gains and losses resulting from intra-Group transactions and dividends have been eliminated in preparing the consolidated financial statements.

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Investments in subsidiaries held by Austal Limited are accounted for at cost in the separate financial statements of the parent entity less any impairment charges.

## **IV Foreign currency transactions and translation**

Both the functional and presentation currency of Austal Limited is Australian Dollars (AUD). The Company determines the most appropriate functional currency for each entity within the Group and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling applicable at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling applicable at the balance date. All exchange differences arising from the above procedures are taken to Other Comprehensive Income.

The functional currency of the subsidiaries undertaking the Group's operations in the USA, Vietnam, Singapore and the Philippines is United States Dollars (USD).

The assets and liabilities of the overseas subsidiaries are translated into the presentation currency of Austal Limited at the closing foreign exchange rate for the reporting date. The Profit and Loss is translated at the average exchange rates for the period. The exchange differences arising on translation are taken directly to a separate reserve in equity. The deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the Profit and Loss on disposal of a foreign entity.

## V Accounting judgements and estimates

The Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities in the application of the Group's accounting policies. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Information on material estimates and judgements considered when applying the accounting policies can be found in the following notes:

<b>Key accounting judgements and estimates</b>	<b>Note</b>
Contract revenue, expected construction profits at completion and onerous contracts	4
Research and development tax credits	5
Deferred tax assets	9
Tax treatment for royalties on intellectual property	9
Estimation of useful lives of assets	20, 22
Impairment of non-financial assets	20, 23
Leases	21
Provisions	19, 31
Share based payments	36

## VI New and amended standards adopted by the Group

The Group has applied all new and amended accounting standards and interpretations effective from 1 July 2022, including:

- AASB 2020-3 Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments
- AASB 2021-7 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections

The adoption of these standards did not have any effect on the financial position or performance of the Group.

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

## VII Other new accounting standards issued but not yet effective:

The following new or amended standards in issue but not yet effective are not expected to have a significant impact on the Group's consolidated financial statements:

- AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- AASB 2015-10 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128
- AASB 2017-5 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections
- AASB 2021-7 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections
- AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current
- AASB 2020-6 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current – Deferral of Effective Date
- AASB 2022-6 Amendments to Australian Accounting Standards – Non-current Liabilities with Covenants
- AASB 2022-5 Amendments to Australian Accounting Standards – Lease Liability in a Sale and Leaseback
- AASB 17 Insurance Contracts, AASB 2020-5 Amendments to Australian Accounting Standards – Insurance Contracts, AASB 2022-1 Amendments to Australian Accounting Standards – Initial Application of AASB 17 and AASB 9 – Comparative Information and AASB 2022-8 Amendments to Australian Accounting Standards – Insurance Contracts: Consequential Amendments
- AASB 2021-2 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates
- AASB 2021-5 Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction
- AASB 2021-6 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies: Tier 2 and Other Australian Accounting Standards
- AASB 2022-7 Editorial Corrections to Australian Accounting Standards and Repeal of Superseded and Redundant Standards



# Current year performance

## Note 3 Operating segments

### I Disclosures

	USA			Australasia			Elimination /		Total
	Shipbuilding \$'000	Support \$'000	Total \$'000	Shipbuilding \$'000	Support \$'000	Total \$'000	Unallocated \$'000	Adjustments \$'000	
<b>Year ended 30 June 2023</b>									
<b>Revenue</b>									
External customers	998,116	226,920	1,225,036	219,473	140,412	359,885	-	113	1,585,034
Inter-segment <sup>1</sup>	-	-	-	2,846	3,682	6,528	-	(6,528)	-
<b>Total</b>	<b>998,116</b>	<b>226,920</b>	<b>1,225,036</b>	<b>222,319</b>	<b>144,094</b>	<b>366,413</b>	<b>-</b>	<b>(6,415)</b>	<b>1,585,034</b>
<b>(Loss) / Profit before tax</b>									
Earnings before interest and tax	(9,498)	14,677	5,179	6,720	9,057	15,777	(26,421)	623	(4,842)
Finance income	-	-	-	-	-	-	1,784	-	1,784
Finance expenses	-	-	-	-	-	-	(12,456)	-	(12,456)
<b>(Loss) / profit before income tax</b>	<b>(9,498)</b>	<b>14,677</b>	<b>5,179</b>	<b>6,720</b>	<b>9,057</b>	<b>15,777</b>	<b>(37,093)</b>	<b>623</b>	<b>(15,514)</b>
Depreciation and amortisation	(36,208)	(7,709)	(43,917)	(10,183)	(5,715)	(15,898)	-	-	(59,815)
Impairment reversal	-	-	-	176	-	176	-	-	176
<b>Balance sheet</b>									
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)

	USA			Australasia			Elimination /		Total
	Shipbuilding \$'000	Support \$'000	Total \$'000	Shipbuilding \$'000	Support \$'000	Total \$'000	Unallocated \$'000	Adjustments \$'000	
<b>Year ended 30 June 2022</b>									
<b>Revenue</b>									
External customers	880,101	175,821	1,055,922	278,727	94,356	373,083	-	39	1,429,044
Inter-segment <sup>1</sup>	-	-	-	6,978	3,905	10,883	-	(10,883)	-
<b>Total</b>	<b>880,101</b>	<b>175,821</b>	<b>1,055,922</b>	<b>285,705</b>	<b>98,261</b>	<b>383,966</b>	<b>-</b>	<b>(10,844)</b>	<b>1,429,044</b>
<b>Profit / (loss) before tax</b>									
Earnings before interest and tax	122,105	11,636	133,741	11,863	2,755	14,618	(27,905)	208	120,662
Finance income	-	-	-	-	-	-	135	-	135
Finance expenses	-	-	-	-	-	-	(8,369)	-	(8,369)
<b>Profit / (loss) before income tax</b>	<b>122,105</b>	<b>11,636</b>	<b>133,741</b>	<b>11,863</b>	<b>2,755</b>	<b>14,618</b>	<b>(36,139)</b>	<b>208</b>	<b>112,428</b>
Depreciation and amortisation	(20,648)	(5,026)	(25,674)	(13,599)	(5,415)	(19,014)	-	-	(44,688)
Impairment (loss)	-	-	-	(2,556)	-	(2,556)	-	-	(2,556)
<b>Balance sheet</b>									
Segment assets	1,025,103	186,937	1,212,040	291,595	111,504	403,099	76,895	(2,589)	1,689,445
Segment liabilities	(467,017)	(71,081)	(538,098)	(93,830)	(66,119)	(159,949)	(81,280)	14,167	(765,160)

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

	2023 \$'000	2022 \$'000
<b>Group Revenue from external customers</b>		
<b>By geographical location of customers</b>		
USA	1,211,155	1,055,922
Australia	327,057	292,293
Europe	13,865	59,867
Asia	24,065	-
South America	6,314	5,713
Middle East	2,578	2,830
Other	-	12,419
Total	<u>1,585,034</u>	<u>1,429,044</u>

	2023 \$'000	2022 \$'000
<b>Analysis of unallocated</b>		
<b>(Loss) / profit before tax</b>		
Administration expenses	(20,150)	(17,810)
Marketing expenses	(9,159)	(11,395)
Research and development credits	1,838	642
Foreign exchange gains	1,050	658
Finance expenses	(12,456)	(8,369)
Finance income	1,784	135
Total	<u>(37,093)</u>	<u>(36,139)</u>
<b>Segment assets</b>		
Cash	6,508	41,085
Deferred tax assets	6,818	9,648
Other receivables	144	3,196
Income tax receivable	117	16,955
Other	7,011	6,011
Total	<u>20,598</u>	<u>76,895</u>
<b>Segment liabilities</b>		
Deferred tax liabilities	(54,892)	(70,870)
Creditors and provisions	(18,064)	(10,410)
Total	<u>(72,956)</u>	<u>(81,280)</u>

	2023 \$'000	2022 \$'000
<b>Group Non-current assets <sup>1</sup></b>		
<b>Geographical location</b>		
USA	950,788	792,753
Australia	127,674	127,471
Asia	82,875	69,178
Total	<u>1,161,337</u>	<u>989,402</u>
<b>Composition</b>		
Property, plant and equipment	962,541	799,364
Intangible assets	38,328	37,525
Right of use assets	160,468	152,513
Total	<u>1,161,337</u>	<u>989,402</u>

1. Excludes financial instruments, prepayments, other financial assets and deferred tax assets.

## II 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, prepayments, deferred tax assets and income tax refunds. Goodwill has been allocated to reportable segments as described in Note 22.

## III Reportable segments

The reportable segments are:

### 1. USA Shipbuilding

The USA manufactures high performance defence vessels 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 segment 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.

#### IV 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

#### I Disaggregation of Revenue

	2023 \$'000	2022 \$'000
Revenue		
Shipbuilding	1,217,702	1,158,867
Support	367,332	270,177
Total	1,585,034	1,429,044

#### II 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.

##### Vessel finance for Cape-class Patrol Boats 9 & 10 (CCPB 9 & 10)

Austal entered into a finance arrangement with National Australia Bank (NAB) and the Royal Australian Navy (RAN) for the construction of CCPB 9 & 10 in December 2015.

NAB financed the purchase of the vessels and chartered the vessels to RAN for an initial 3 year term which was subsequently extended to April 2022 for CCPB 9 and May 2022 for CCPB 10.

This arrangement results in non-cash entries being recorded in Austal's statutory reporting during the charter period for notional revenue, notional depreciation and notional interest. Notional revenue of \$3.3 million was reported in FY2022 up to 28 October 2021 when Austal was released from the buyback guarantee.

The Group's accounting policy in respect of revenue in accordance with AASB 15 is as follows:

### **Performance obligations**

Upon approval by Austal and its counter party to a contract, each contract is assessed to identify each promise to transfer either a distinct good or service or a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer.

#### **Separate performance obligations**

Goods and services are distinct and accounted for as separate performance obligations in the contract if the customer can benefit from them either on their own or together with other resources that are readily available to the customer and they are separately identifiable in the contract.

#### **Combining contracts into a single performance obligation**

Contracts are combined into one performance obligation for the purposes of revenue and profit recognition where individual contracts do not result in a performance obligation on the basis that it is not distinct and do not have independent utility to the customer.

#### **Multi vessel contracts**

Austal regularly enters into contracts with an obligation to deliver multiple vessels under a single contract. Austal assesses such multi vessel contracts to determine whether each vessel in the contract represents a distinct performance obligation or whether there is a single performance obligation to deliver a series of vessels that are substantially the same and have same pattern of transfer to the customer.

### **Transaction price**

#### **Total transaction price**

The total transaction price at the start of each contract is estimated as the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods and services to the customer, excluding sales taxes.

#### **Variable consideration**

Variable consideration, such as price escalation, is included based on the expected value or most likely amount only to the extent that it is highly probable that there will not be a reversal in the amount of cumulative revenue recognised.

The transaction price does not include estimates of consideration resulting from contract modifications, such as change orders, until they have been approved by the parties to the contract.

#### **Allocation of total transaction price to each performance obligation**

The total transaction price is allocated to the performance obligations identified in the contract in proportion to their relative stand-alone selling prices. There are typically no observable stand-alone selling prices given the bespoke nature of many of the Group's products and services, which are designed and / or manufactured under contract to each customer's individual specifications. Instead, stand-alone selling prices are typically estimated based on expected costs plus contract margin consistent with the Group's pricing principles.

### **Revenue and profit recognition**

Revenue is recognised as performance obligations are satisfied as control of the goods and services is transferred to the customer.

The Group determines whether each performance obligation within a contract is satisfied over time or at a point in time.

## Revenue recognition over time

Performance obligations are satisfied over time if one of the following criteria is satisfied:

- The customer simultaneously receives and consumes the benefits provided by the Group's performance as it is performed;
- The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- The Group's performance does not create an asset with an alternative use to the Group and it has an enforceable right to payment for performance completed to date.

The Group has determined that most of its contracts satisfy the criteria for recognition over time, either because:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as it is performed (typically sustainment contracts); or
- the Group's performance does not create an asset with an alternative use to the Group and it has an enforceable right to payment for performance completed to date (typically shipbuilding contracts).

## Satisfaction of performance obligations over time or at a point in time

Revenue is recognised at the point in time that control is transferred to the customer if the criteria for revenue recognition over time are not met. Control is typically transferred to the customer when legal title passes to the customer and Austal has a legal right to payment, for example, upon delivery or acceptance of invoice.

## Measuring progress

The Group recognises revenue using an input method, based on costs incurred in the period for each performance obligation to be recognised over time. Revenue and attributable margin are calculated by reference to reliable estimates of transaction price and total expected costs, after making suitable allowances for technical and other risks. Revenue and associated margin are therefore recognised progressively as costs are incurred, and as risks have been mitigated or retired. The Group does not include long lead time materials where they do not represent progress. The Group has determined that this method faithfully depicts the Group's performance in transferring control of the goods and services to the customer.

## Multi vessel contracts representing a single performance obligation

The Group monitors the costs of each individual vessel under multi vessel contracts to identify risks and additional costs that may arise as a result of first of class issues or achievement of productivity improvements that are expected to be achieved from vessel to vessel (i.e. a learning curve).

Contingencies and additional costs are included in the cost estimate for each vessel under multi vessel contracts to ensure that revenue recognition over time appropriately reflects the presence of cost performance risks and outcomes.

## 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).

## Contract modifications

The Group's contracts are often amended for changes in customers' requirements and specifications. A contract modification exists when the parties to the contract approve a modification that either changes existing or creates new enforceable rights and obligations. The effect of a contract modification on the transaction price and the Group's measure of progress towards the satisfaction of the performance obligation to which it relates is recognised in one of the following ways:

1. Prospectively as an additional, separate contract;



2. Prospectively as a termination of the existing contract and creation of a new contract; or
3. As part of the original contract using a cumulative catch up.

The majority of the Group's contract modifications are treated under either 1 (for example, the requirement for additional distinct goods or services) or 3 (for example, a change in the specification of the distinct goods or services for a partially completed contract), although the facts and circumstances of any contract modification are considered individually as the types of modifications will vary contract-by-contract and may result in different accounting outcomes.

#### Costs to obtain a contract

The Group expenses pre-contract bidding costs which are incurred regardless of whether a contract is awarded. The Group does not typically incur costs to obtain contracts that it would not have incurred had the contracts not been awarded.

#### Costs to fulfil a contract

##### Contracts recognised over time

Contract fulfilment costs in respect of over time contracts are expensed as incurred.

##### Contracts recognised at a point in time

Contract fulfilment costs in respect of point in time contracts are accounted for under AASB 102 Inventories.

### III Remaining performance obligations (work in hand)

The transaction price allocated to remaining performance obligations (unsatisfied or partially satisfied) at 30 June 2023 is set out below:

#### Transaction price allocated to remaining performance obligations pursuant to customer contracts

	2023 \$'000	2022 \$'000
Committed but not recognised as liabilities payable:		
- Within one year	1,222,146	1,474,991
- One to five years	6,649,014	1,493,467
Total	<u>7,871,160</u>	<u>2,968,458</u>

The transaction price associated with unsatisfied or partially satisfied performance obligations does not include variable consideration that is constrained.

### IV Vessel construction and support contracts in progress

	2023 \$'000	2022 \$'000
<b>Net carrying amount</b>		
Work in progress	319,835	255,566
Progress payments received in advance	(217,212)	(99,084)
Total due from customers	<u>102,623</u>	<u>156,482</u>

## 1. Recognition and measurement

Construction and support work in progress represents the Group's right to consideration for services provided to customers for which the Group's right remains conditional upon something other than the passage of time.

Amounts are generally reclassified to trade receivables when contract performance obligations have been certified or invoiced to the customer.

Progress payments received in advance arise where payment is received prior to work being performed.

Revenue of \$45.7 million recognised in the current period was included in the progress payments received in advance (PPIA) balance at the beginning of the period (FY2022: \$88.2 million).

## V 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 significant 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's accounting policy for contract revenue.

### 2. 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 & EPF has continued to improve and the remaining contingencies have been released with the impending completion of the final vessels.

#### LCS

Contingencies after shareline (risk sharing mechanism) held for LCS vessels at 30 June 2023 was \$nil (FY2022: \$98 million).

LCS 32 & LCS 34 were delivered during FY2023. Although a portion of the contingencies were consumed during the year, a re-assessment of the level of remaining risks, as originally planned in FY2021 following the LCS 28 design changes introduced in FY2019, allowed the release of all remaining contingencies in FY2023.

## **EPF**

Contingencies after shareline held for EPF vessels at 30 June 2023 was \$nil (FY2022: \$16 million).

EPF 13 was delivered during FY2023. Although a portion of the contingencies were consumed during the year, a re-assessment of the level of remaining risks, as originally planned in FY2021, following the EPF 13 design changes introduced in FY2019, allowed the release of all remaining contingencies in FY2023.

## **Other Programs**

Future judgments 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 30 June 2023 for undelivered vessels in the Australasia business unit were \$4 million (FY2022: \$16 million). This was equivalent to 5.2% of ETC (FY2022: 3.1%).



## Note 5 Other profit and loss

### I Disclosure

	2023 \$'000	2022 \$'000
<b>Other income and expenses</b>		
Government infrastructure grants amortised	15,573	3,707
Sale of scrap materials	2,031	3,644
Sundry income	1,968	1,576
Gain on sale of joint venture	-	2,654
Vessel warranties	2,278	(3,776)
Loss on disposal of plant and equipment	(160)	(563)
Net foreign exchange gain	2,350	370
Total	<u>24,040</u>	<u>7,612</u>
<b>Finance income</b>		
Interest income	1,784	135
<b>Finance costs</b>		
Interest payable to unrelated parties	(11,866)	(7,996)
Amortisation of capitalised loan origination costs	(590)	(373)
Total	<u>(12,456)</u>	<u>(8,369)</u>
<b>Net finance costs</b>	<u>(10,672)</u>	<u>(8,234)</u>
<b>Depreciation and amortisation</b>		
Depreciation of property, plant and equipment	(48,573)	(35,180)
Depreciation of right of use assets	(9,581)	(7,771)
Amortisation of intangible assets	(1,661)	(1,737)
Total	<u>(59,815)</u>	<u>(44,688)</u>
<b>Impairment loss</b>		
Impairment reversal / (loss) on plant and equipment	176	(2,556)
<b>Employee benefits <sup>1</sup></b>		
Wages and salaries	(404,744)	(382,942)
Annual leave expense	(23,201)	(22,194)
Post-retirement benefits	(11,296)	(10,332)
Workers' compensation costs	(6,933)	(2,545)
Share based payments expense	(2,442)	(2,850)
Long service leave expense	(1,208)	(2,114)
Total	<u>(449,824)</u>	<u>(422,977)</u>
<b>Research and development credits <sup>2</sup></b>		
Research and development credits	3,732	4,712

1. Disclosed within cost of sales, administrative and marketing expenses.

2. Disclosed within cost of sales.

	2023 \$	2022 \$
<b>Auditors' remuneration <sup>1</sup></b>		
<b>Amounts received or due and receivable by Deloitte Touche Tohmatsu Australia and related network firms for:</b>		
Audit or review of the financial statements		
Group	(626,600)	(425,500)
Controlled entities	(1,082,111)	(933,966)
Total	<u>(1,708,711)</u>	<u>(1,359,466)</u>
Other assurance services	-	-
Non-audit services		
Taxation advice and compliance services	(49,217)	(175,239)
Consulting services	-	-
Total	<u>(49,217)</u>	<u>(175,239)</u>
Total	<u>(1,757,928)</u>	<u>(1,534,705)</u>
<b>Other auditors and firms:</b>		
Audit or review of the financial reports		
Subsidiaries	(131,020)	(25,121)
Non-audit services		
Taxation advice and compliance services	(28,714)	(27,883)
Consulting services	-	-
Total	<u>(159,734)</u>	<u>(53,004)</u>
<b>Total</b>	<u>(1,917,662)</u>	<u>(1,587,709)</u>

1. The portion of the auditor's remuneration payable in USD was converted at a USD / AUD exchange rate of 0.6721 in FY2023 (FY2022: 0.7254).

## II Recognition & measurement

The following recognition and measurement criteria must be met before the following specific items are recognised in the Profit and Loss:

### 1. Grants relating to expense items

Grants include US Government infrastructure grants and training reimbursement grants. Grants are recognised when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

All grants are recognised as income when they relate to an expense item. The grants are recognised over the periods necessary to match the grant to the costs that they are intended to compensate.

## **2. Research and Development (R&D) credits**

The Group receives tax credits for eligible R&D expenditure. The Group accounts for its R&D tax credits using a “hybrid” approach, whereby tax credits received up to the Group’s statutory tax rate are accounted for as an income tax benefit under AASB 112, and the amount of R&D tax credits in excess of the Group’s statutory tax rate are accounted as a Government grant under AASB 120.

The excess R&D credits are recognised as a reduction to each vessel’s cost estimate at completion when there is reasonable assurance that the credits will be received and utilised. The entire excess credit is recognised in cost of sales and changes the calculation of percent complete which impacts the timing of revenue recognition for the projects.

The net impact to profit before tax in FY2023 was \$3.7 million (FY2022: \$4.7 million).

The future tax benefit of carry forward R&D credits where deemed to be probable of recovery are recognised in Other Non-Current Assets. Further information relating to the R&D credits is provided in Note 26.

## **3. Finance costs**

Finance costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. All other finance costs are expensed in the period that they occur. There were no qualifying assets in FY2023 (FY2022: None).

Finance costs include interest payments, amortisation of capitalised loan origination costs and other costs that an entity incurs in connection with the borrowing of funds.

## **4. Sale of scrap materials**

Revenue for the sale of scrap is recognised when the significant risks and rewards of ownership of the materials have passed to the buyer. Risk and rewards of ownership are considered to have passed to the buyer at the time of delivery of the goods to the customer.

## **5. Foreign exchange gains and losses**

Foreign exchange gains and losses included in the Profit and Loss comprise fair value adjustments on non-derivative financial assets (such as foreign currency denominated loans) and gains and losses on cash flow hedges that were deemed to be ineffective during the accounting period.

# **III Significant accounting judgements and estimates**

## **1. R&D credits**

Management has made judgements regarding which expenditure is classified as eligible for the credit, including assessing activities to determine whether they are conducted for the purposes of generating new knowledge, and whose outcome cannot be known or determined in advance.



## Note 6 Earnings per share (EPS)

### I Calculation

		<u>2023</u>	<u>2022</u>
<b>Net (loss) / profit after tax</b>			
Net (loss) / profit attributable to ordinary equity holders of the parent	\$'000	(13,774)	79,565
<b>Weighted average number of ordinary shares</b>			
Basic	Number	362,399,476	361,337,051
Effect of dilution	Number	2,757,824	1,867,104
Diluted	Number	<u>365,157,300</u>	<u>363,204,155</u>
<b>(Loss) / Earnings per share</b>			
Basic (loss) / earnings per share	\$ / share	(0.038)	0.220
Diluted (loss) / earnings per share	\$ / share	(0.038)	0.219

### II Measurement

Basic EPS is calculated by dividing Net profit / (loss) after tax for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS is calculated by dividing the Net profit / (loss) after tax for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all potentially dilutive ordinary shares into ordinary shares.

In FY2023, the effect of rights is anti-dilutive given the net (loss) attributable to ordinary equity holders of the parent. As a result, the rights have been excluded and basic and diluted EPS are the same.

### III Information concerning the classification of securities

#### 1. Performance rights

Performance rights granted to executives under the Group's Long Term Incentive Plan are included in the calculation of diluted EPS where the conditions would have been met at the reporting date. There were 1,959,193 performance rights that were potentially dilutive at 30 June 2023 (30 June 2022: 1,582,526 performance rights).

Further information relating to the performance rights is provided in Note 36.

#### 2. Share rights

Share rights may be provided to KMP as part of total fixed remuneration. The share rights are treated as effective shares and therefore included in the calculation of basic EPS.

Further information relating to the share rights is provided in Note 36.

#### 3. Service Rights

Service rights are included in the determination of diluted EPS. There were 798,631 service rights that were potentially dilutive at 30 June 2023 (30 June 2022: 284,578 service rights).

Further information relating to the service rights is provided in Note 36.

#### 4. Other equity transactions

Austal issued 583,721 shares to the Employee Share trust in November 2022 in relation to the vesting of the FY2020 LTI plan, FY2022 STI equity (indeterminate rights), and share rights issued to Non-Executive Directors.

There have been no additional transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

#### Note 7 Reconciliation of net profit after tax to net cash flows from operations

	2023 \$'000	2022 \$'000
<b>Net (loss) / profit after tax</b>	(13,774)	79,565
<b>Adjustments for non cash profit and loss items:</b>		
Depreciation and amortisation	59,815	44,688
(Reversal of) / impairment of plant and equipment	(176)	2,556
Net loss on disposal of property, plant and equipment	160	563
Share based payments expense	2,442	2,850
CCPB 9 & 10 notional charter income	-	(3,316)
Interest expense	4,834	3,559
Gain on disposal of assets held for sale	-	(2,654)
Amortisation of borrowing costs	590	373
Deferred government grant income	(15,573)	(3,707)
Research and development tax credits recognised	(3,732)	(4,712)
Non-cash mark to market revaluations	(1,088)	389
Total	47,272	40,589
<b>Changes in assets and liabilities:</b>		
Increase / (decrease) in income tax (current and deferred)	1,899	4,524
Increase / (decrease) in provisions	101,682	(693)
(Increase) / decrease in trade and other receivables	(2,962)	6,197
(Increase) / decrease in inventories and work in progress	(66,067)	(84,741)
(Increase) / decrease in prepayments	(80,968)	(2,180)
(Increase) / decrease in other financial assets	(1,356)	58
(Decrease) / increase in trade and other payables	(17,140)	18,346
Decrease / (increase) in progress payments in advance	118,128	(24,166)
Total	53,216	(82,655)
<b>Net cash inflow from operating activities</b>	86,714	37,499

## Note 8 Dividends paid and proposed

### I Dividends on ordinary shares

	2023 \$'000	2022 \$'000
<b>Dividends paid on ordinary shares</b>		
Unfranked final dividend for the prior year, 4 cps (2022: unfranked, 4 cps)	(14,474)	(14,396)
Unfranked interim dividend for the current year, 4 cps (2022: unfranked, 4 cps)	(14,498)	(14,474)
Total	<u>(28,972)</u>	<u>(28,870)</u>
<b>Dividend declared subsequent to the reporting period end (not recorded as liability)</b>		
Unfranked final dividend for the current year 3 cps (2022: unfranked, 4 cps)	(10,873)	(14,474)

The dividend declared in the prior year was an estimate of the amount that would be paid and hence does not match the actual amount paid during the current year.

### II Franking credit balance

	2023 \$'000	2022 \$'000
<b>Opening balance</b>	3,403	2,966
Franking credits movement from the payment / (refund) of income tax	-	437
Movement	<u>-</u>	<u>437</u>
<b>Closing balance</b>	<u>3,403</u>	<u>3,403</u>

The franking credit balance is subject to change as a result of any positive settlement of the royalty issue with the ATO. For further information refer to Note 9V13.

## Note 9 Income and other taxes

### I Income tax expense

	2023 \$'000	2022 \$'000
<b>Major components of tax benefit / (expense) are:</b>		
<b>Consolidated profit and loss</b>		
<b>Current income tax</b>		
Current income tax charge	(26,306)	(18,538)
Adjustments in respect of current income tax of the previous year	(617)	(2,020)
Total	<u>(26,923)</u>	<u>(20,558)</u>
<b>Deferred income tax</b>		
Relating to origination and reversal of temporary differences	30,153	(10,924)
Adjustments in respect of deferred income tax of the previous year	(1,490)	(1,381)
Total	<u>28,663</u>	<u>(12,305)</u>
<b>Total income tax benefit / (expense)</b>	<u>1,740</u>	<u>(32,863)</u>
<b>Other comprehensive income (OCI)</b>		
<b>Current and deferred income tax related items charged or credited directly to OCI</b>		
Current and deferred gains and losses on foreign currency contracts	1,514	(752)
Deferred gains on revaluation of property, plant and equipment	(14,302)	(13,858)
<b>Total income tax (expense) charged to OCI</b>	<u>(12,788)</u>	<u>(14,610)</u>
<b>A reconciliation between tax benefit / (expense) and the product of accounting (loss) / profit before income tax multiplied by the Group's applicable income tax rate is as follows:</b>		
<b>Accounting (loss) / profit before income tax from continuing operations</b>	(15,514)	112,428
<b>Income tax at the Group's statutory income tax rate of 30% (2022: 30%)</b>	4,654	(33,728)
USA combined federal and state income tax rate of 25% (2022: 25%)	(2,231)	9,046
Philippines gross income tax (GIT) regime	104	262
Other foreign tax rate differences	403	(65)
USA revalued deferred balances for change in weighted average state rate	1,160	(2,364)
USA withholding tax leakage due to losses in Australia	-	(413)
Non-assessable R&D credits in cost of sales	1,120	1,413
Recognition of prior year unrecognised Australian R&D credits	6,685	-
Carry forward tax losses not recognised	(273)	(3,745)
Transfer pricing adjustments in respect of intercompany royalties	(4,192)	(954)
Valuation of share based payments	(322)	245
Other non-assessable or non-deductible items	(524)	(21)
Foreign income taxes	(2,737)	-
Non-deductible capital expenses	-	862
Adjustments in respect of current and deferred income tax of the previous year	(2,107)	(3,401)
Total Adjustments	<u>(2,914)</u>	<u>865</u>
<b>Income tax benefit / (expense) reported in the profit and loss</b>	<u>1,740</u>	<u>(32,863)</u>
<b>Income tax receivable / (payable)</b>		
Income tax receivable	117	16,955
Income tax payable	(9,920)	(195)



## II Analysis of temporary differences

	Statement of Financial Position		Movement in Profit and Loss	
	2023	2022	2023	2022
	\$'000	\$'000	\$'000	\$'000
<b>Deferred income tax - USA</b>				
<b>Deferred tax assets</b>				
Deferred grant income	28,671	26,034	1,668	6,934
Payables	1,359	4,163	(2,860)	(1,518)
Trade and other receivables	60	118	(60)	(1,199)
Provisions	38,282	5,935	31,148	1,024
Deferred gains and losses on foreign currency contracts	342	463	-	-
Facility lease	890	371	490	312
Losses available for offset against future taxable income	28	27	-	-
R&D	14,150	-	13,714	-
Other	188	-	182	-
<b>Total</b>	<b>83,970</b>	<b>37,111</b>	<b>44,282</b>	<b>5,553</b>
<b>Deferred tax liabilities</b>				
Property, plant and equipment	(111,805)	(94,258)	(2,570)	(8,737)
Work in progress	(28,301)	(16,259)	(11,116)	(10,963)
Intangibles	(157)	(689)	540	100
Payables	(104)	(82)	-	-
Deferred gains and losses on foreign currency contracts	(35)	-	-	-
<b>Total</b>	<b>(140,402)</b>	<b>(111,288)</b>	<b>(13,146)</b>	<b>(19,600)</b>
<b>Net deferred tax (liability)</b>	<b>(56,432)</b>	<b>(74,177)</b>	<b>31,136</b>	<b>(14,047)</b>
<b>Deferred income tax - Australia</b>				
<b>Deferred tax assets</b>				
Provisions	11,950	11,369	581	(815)
Payables	583	406	227	(14)
Cash	61	489	(428)	(90)
Deferred gains and losses on foreign currency contracts	33	146	-	-
Facility lease	819	520	300	309
CCPB 9 & 10	-	-	-	(7)
Other	613	1,031	(467)	698
<b>Total</b>	<b>14,059</b>	<b>13,961</b>	<b>213</b>	<b>81</b>
<b>Deferred tax liabilities</b>				
Property, plant and equipment	(4,990)	(332)	(1,946)	2,281
Deferred gains and losses on foreign currency contracts	(391)	(2,261)	-	-
Prepayments	(1,762)	(1,572)	(190)	(611)
Other	-	51	-	-
<b>Total</b>	<b>(7,143)</b>	<b>(4,114)</b>	<b>(2,136)</b>	<b>1,670</b>
<b>Net deferred tax asset</b>	<b>6,916</b>	<b>9,847</b>	<b>(1,923)</b>	<b>1,751</b>
<b>Deferred income tax - Other</b>				
<b>Deferred tax assets</b>	-	170	(550)	(9)
<b>Deferred tax liabilities</b>	(372)	-	-	-
<b>Net deferred tax (liability) / asset</b>	<b>(372)</b>	<b>170</b>	<b>(550)</b>	<b>(9)</b>
<b>Net deferred tax (liability)</b>	<b>(49,888)</b>	<b>(64,160)</b>	<b>28,663</b>	<b>(12,305)</b>

### III Austal Group Tax Strategy

Austal's Group Tax Strategy has been endorsed by Austal's Audit & Risk Committee (ARC) and is subject to annual review and approval. This strategy applies to Austal Limited and its worldwide subsidiary companies.

#### 1. Tax risk management and governance

Austal's tax risk management and governance processes are supported through its Tax Risk Management Standard that is approved by the Board of Directors. The ARC assists the Board in fulfilling its oversight responsibilities by reviewing, monitoring and making recommendations in relation to tax risk management and governance practices.

The standard includes:

- Ensuring that the roles and responsibilities for the management of tax risks are documented and understood;
- Maintaining a qualified and adequately resourced tax team to manage the tax control framework and day to day tax affairs;
- Requiring tax review of specified transactions and events and obtaining external advice where appropriate; and
- Regular reporting of key tax issues to the Chief Financial Officer and to the Board of Directors and ARC.

#### 2. Tax principles

Austal observes these principles in its approach to tax. It will:

- Fulfil its tax obligations in accordance with tax laws and practice of the tax jurisdictions in which it operates.
- Pay the amount of tax which is legally due at the correct time.
- Maintain an open, transparent and collaborative relationship with tax authorities.
- Act with integrity to protect the reputation of Austal.

#### 3. 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.

#### 4. Tax risk appetite

Tax risk will inevitably arise given the scale of the business and the number of tax jurisdictions in which Austal operates, the judgements that are required to interpret complex tax regulations and the continually changing nature of tax laws.

Austal practices prudent management of its tax affairs through the application of its Tax Risk Management Standard. Austal proactively seeks to identify, evaluate, manage and monitor tax uncertainties and risks to ensure that they are appropriately addressed. Transfer pricing is calculated

using the “arm’s length” principle and structured so that the tax results are consistent with the underlying economic consequences.

## **5. Relationship with tax authorities**

Austral is committed to engaging with the regulatory authorities with integrity, honesty, respect, fairness, transparency and a spirit of co-operation.

## **6. UK specific comments**

Austral Group’s tax strategy is regarded as satisfying the statutory obligation under Paragraph 22(2) of Schedule 19 Finance Act 2016 (‘Qualifying Company’) for Austral UK Limited.

# **IV Recognition and measurement**

## **1. Current tax assets and liabilities**

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from, or paid to, taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance date.

## **2. Deferred income tax**

Deferred income tax is provided on all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, except when:

- The deferred income tax liability arises from the initial recognition of goodwill, or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable Profit and Loss; or
- The taxable temporary differences associated with investments in subsidiaries, associates or joint ventures, and the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

## **3. Deferred income tax asset recognition**

Deferred income tax assets are recognised for all deductible temporary differences and carry-forward tax assets and losses to the extent that the availability of taxable profit against which the deductible temporary differences is probable; and the deferred tax assets can be utilised, except when:

- The deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable Profit and Loss;
- The deductible temporary differences are associated with investments in subsidiaries, associates and interests in joint ventures in which case a deferred tax asset is only recognised to the extent that taxable profits will be available in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred tax assets are reassessed at each balance date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

#### **4. Deferred income tax asset and liability measurement**

The US federal rate of income tax is 21.0% (FY2022: 21.0%) and the weighted average of individual US states in which Austal operates was 4.02% for FY2023 (FY2022: 4.3%). The weighted average tax rate changes year on year based on the distribution of activity between the states.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability will be settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance date.

Amounts arising from the re-measurement of deferred balances is disclosed separately in the tax expense reconciliation.

#### **5. Income taxes relating to equity items**

Income taxes relating to items recognised directly in equity are only recognised in equity and not in the Profit and Loss.

### **V Tax consolidation**

Austal Limited is the head entity in a Tax Consolidated Group comprising of Austal Limited and its 100% owned Australian resident subsidiaries that was implemented 1 July 2002. Members of the Group entered into a tax sharing arrangement in order to allocate income tax expense to the wholly owned subsidiaries on a pro-rata basis.

The agreement provides for the allocation of income tax liabilities between the entities in the event that the head entity defaults on its tax payment obligations. The possibility of default was assessed to be remote at the reporting date.

The current and deferred tax amounts for the Tax Consolidated Group are allocated amongst the entities in the Tax Consolidated Group using a stand-alone taxpayer approach whereby each entity in the Tax Consolidated Group measures its current and deferred taxes as if it had continued to be a separately taxable entity in its own right. Deferred tax assets and deferred tax liabilities are measured by reference to the carrying amounts of the assets and liabilities in each entity's statement of financial position and their tax values applying under tax consolidation.

Any current or deferred tax assets or liabilities arising from unused tax losses assumed by the head entity from the subsidiaries in the Tax Consolidated Group are recognised in conjunction with any tax funding arrangement amounts. The Tax Consolidated Group recognises deferred tax assets arising from unused tax losses of the Tax Consolidated Group to the extent that it is probable that future taxable profits of the Tax Consolidated Group will be available against which the asset can be utilised. Any subsequent period adjustments to deferred tax assets arising from unused tax losses assumed from subsidiaries are recognised by the head entity only.

The members of the Tax Consolidated Group have a tax funding arrangement which sets out the funding obligations of members of the Tax Consolidated Group in respect of tax amounts. The tax funding arrangements require payments to or from the head entity to be equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity.

No amounts have been recognised as tax consolidation contribution or distribution adjustments in preparing the accounts for the head entity for the current year.

### **VI Significant accounting judgements and estimates**

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded given the wide range of international business relationships and the long term nature and complexity of existing contractual agreements.



## 1. Deferred tax assets

Deferred tax assets are recognised as deductible temporary differences because management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

The Group has not recognised a deferred tax asset on the carry forward tax losses and Australian R&D credits because there is sufficient uncertainty in the Group's ability to utilise these in the short term. The Group will continue to assess the recognition criteria against the probability of future taxable profits.

Note that the Australian Consolidated Tax Group consists of the Australian Shipbuilding and Support operations that comprise part of the Australasia segments as well as the Austal Limited Corporate Head Office and hence the taxable income of the Australian Consolidated Tax Group is different from the profitability of the Australasia segments.

Unrecognised deferred tax assets in respect of the Australian Consolidated Tax Group losses at 30 June 2023 were:

	2023 \$'000	2022 \$'000
<b>Unrecognised Australian tax losses (tax effected values)</b>		
Opening balance	5,625	5,520
True-up of prior year tax losses	(2,860)	(3,637)
Losses incurred in the current year	-	3,742
Total	(2,860)	105
Closing balance	2,765	5,625

Austal also claimed R&D tax offsets for prior years in FY2023 and FY2022. The offset was claimed by adding back accounting expenditure subject to R&D tax incentive and reduced carried forward losses for those years. See note 26 for details of unrecognised R&D tax credits carried forward.

Due to the Group's hybrid approach to recognising R&D tax offsets partially as an income tax and partially as a government grant, the amounts disclosed in Note 26 include amounts that are partially unrecognised deferred tax assets and partially unrecognised government grants that may arise in the future.

## 2. Audits by tax authorities

The Group establishes a provision based on reasonable estimates, for the 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.

## 3. Mutual Agreement Procedures (MAP) and Bilateral Advance Pricing Arrangement (BAPA)

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.

Austal is engaging with the Competent Authorities on these programs and responding to the information requests issued by both competent authorities.

Austal has accounted for and paid tax in Australia based on the ATO's position and the outcomes of the MAP and BAPA processes may generate tax refunds or tax payable in either jurisdiction. Austal is currently unable to determine what the outcomes of these processes may be nor the timeline to resolution.

The total additional tax relating to royalties on vessels that have been delivered in all years up to 30 June 2023 was \$(26.3) million (FY2022: \$(22.0) million).

\$(4.2) million (FY2022: \$(7.6) million) of the \$(26.3) million (FY2022: \$(22.0) million) has been paid in cash in periods up to and including FY2023 (FY2022).

The remaining \$(22.1) million (FY2022: \$(14.4) million) has not had a cash impact in all years up to 30 June 2023, because the additional royalty income arose in loss years or in years when tax losses or R&D credits were utilised to offset the additional tax liability.

#### **4. Other taxes**

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (GST) or Value Added Tax (VAT) except when:

- The GST or VAT incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST or VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item; and
- Receivables and payables which are stated with the amount of GST or VAT included.

The net amount of GST or VAT recoverable from, or payable to, the relevant taxation authority is included as part of receivables or payables in the statement of financial position.

## Capital structure

### Note 10 Cash and cash equivalents

#### I Net carrying amount

	2023 \$'000	2022 \$'000
<b>Cash</b>		
Cash at bank and in hand	179,201	240,113
Total	<u>179,201</u>	<u>240,113</u>

#### II Recognition and measurement

Cash and short term deposits in the Balance Sheet comprise cash at bank, cash in hand and short term deposits with an original maturity of three months or less.

Cash and cash equivalents for the purposes of the Cash Flow Statement consists of cash and cash equivalents (as defined above) net of any cash held as a guarantee.

### Note 11 Interest bearing loans and borrowings

#### I Net carrying amount

	2023 \$'000	2022 \$'000
<b>Non - current</b>		
Go Zone Bonds	(129,499)	(124,515)
Total	<u>(129,499)</u>	<u>(124,515)</u>

#### II Recognition and measurement

Loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. Loans and borrowings are subsequently measured at amortised cost using the effective interest method.

The fair values of all classes of borrowings are not materially different to their carrying amounts since the interest payable on those borrowings is either close to current market rates or they are of a short term nature.

### III Go Zone Bonds (GZB)

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 2.5485% in FY2023 (FY2022: 0.0989%). GZB bondholders are secured by letters of credit issued by Austal's banking syndicate with a maturity date of December 2024 for both Series 2011A and 2011B. The average cost of the letters of credit in FY2023 was 1.5354% (FY2022: 1.5354%).

Austal has redeemed (repaid) a cumulative amount of ~ US\$137.5 million (FY2022: US\$137.5 million) of GZB funds and owes US\$87.5 million at 30 June 2023 (30 June 2022: 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.

### IV Revolving credit facility – Cash Loans

	2023 \$'000	2022 \$'000
<b>Revolving credit facility - cash loans</b>		
Total facility Limit	50,000	50,000
Facilities used at reporting date	-	-
Facilities unused at reporting date	<u>50,000</u>	<u>50,000</u>

Austal re-financed the Syndicated Facility Agreement during FY2022. The Syndicated Facility Agreement has a \$280 million revolving credit facility (RCF). The RCF has a \$50 million cash loan sub limit. The Syndicated Facility Agreement matures in December 2024.



## V Performance guarantees (bonding) facilities

	2023 \$'000	2022 \$'000
<b>Total facilities available</b>		
Revolving credit facility	280,000	280,000
Surety facilities	250,000	250,000
Total	<u>530,000</u>	<u>530,000</u>
<b>Facilities used at reporting date</b>		
Revolving credit facility	(21,103)	(116,396)
Surety facilities	(866)	(835)
Total	<u>(21,969)</u>	<u>(117,231)</u>
<b>Facilities unused at reporting date</b>		
Revolving credit facility	258,897	163,604
Surety facilities	249,134	249,165
Total	<u>508,031</u>	<u>412,769</u>

Any unused portion of the entire \$280 million RCF can be used for non-financial performance guarantees, up to \$20 million of any unused portion can be used for financial performance guarantees, and up to \$50 million of any unused portion can be used for cash loans as described above.

Austal had a total of \$420 million of uncommitted and unsecured Surety facilities at 30 June 2023 (30 June 2022: \$420 million). However, only \$250 million of the Surety facilities are available for the issuance of non-financial performance guarantees in accordance with a limitation within the Syndicated Facility Agreement.

## Note 12 Reconciliation of financing cash flow to interest bearing debt

### I Reconciliation

FY2023	30 June 2022 \$'000	Cash charges		Non-cash changes				30 June 2023 \$'000
		Debt Repay / (Draw) \$'000	Payment of borrowing costs \$'000	CCPB 9 & 10 Debt Reduction <sup>1</sup> \$'000	CCPB 9 & 10 De-recognition \$'000	Foreign exchange movement \$'000	Amortisation of borrowing costs \$'000	
Current borrowings	-	-	-	-	-	-	-	-
Non-current borrowings	(124,515)	-	-	-	-	(4,394)	(590)	(129,499)
Total financing liabilities	(124,515)	-	-	-	-	(4,394)	(590)	(129,499)

FY2022	30 June 2021 \$'000	Cash charges		Non-cash changes				30 June 2022 \$'000
		Debt Repay / (Draw) \$'000	Payment of borrowing costs \$'000	CCPB 9 & 10 Debt Reduction <sup>1</sup> \$'000	CCPB 9 & 10 De-recognition \$'000	Foreign exchange movement \$'000	Amortisation of borrowing costs \$'000	
Current borrowings	(32,205)	-	-	3,066	29,139	-	-	-
Non-current borrowings	(114,999)	-	823	-	-	(9,966)	(373)	(124,515)
Total financing liabilities	(147,204)	-	823	3,066	29,139	(9,966)	(373)	(124,515)

1. CCPB 9 & 10 debt reduction is equal to the difference between the notional charter income and the notional interest expense.

## Note 13 Contributed equity and reserves

### I Contributed equity

#### 1. Net carrying amount

	Shares		\$'000	
	2023	2022	2023	2022
<b>Ordinary shares on issue</b>				
1 July	361,858,154	359,894,288	146,236	142,558
Shares issued to Employee Share Trust	583,721	1,963,866	1,459	3,675
Shares or proceeds transferred for beneficiaries	-	-	80	3
30 June	362,441,875	361,858,154	147,775	146,236
<b>Reserved shares</b>				
1 July	(1,088,675)	(278,528)	(2,304)	(892)
Shares issued to Employee Share Trust or sold	(583,721)	(1,963,866)	(1,459)	(3,675)
Shares or proceeds transferred for beneficiaries	215,621	1,153,719	506	2,263
30 June	(1,456,775)	(1,088,675)	(3,257)	(2,304)
<b>Net</b>	<b>360,985,100</b>	<b>360,769,479</b>	<b>144,518</b>	<b>143,932</b>

## 2. Recognition and measurement

### Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds of the new shares or options. Ordinary shares have no par value and the company does not have a limited amount of authorised capital.

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

### Reserved shares

Austal Limited equity instruments which are issued and held by a trustee under the Employee Share Trust (EST) are classified as Reserved shares and are deducted from Equity. No gain or loss is recognised in the Other Comprehensive Income on the purchase, sale, issue or cancellation of the Group's own equity instruments.

## 3. Movements in ordinary share capital

The movement in ordinary shares during year ended 30 June 2023 is comprised of shares issued as part employee share plans.

The Group announced an unfranked FY2022 final dividend of 4.0 cents per share, followed by an unfranked FY2023 interim dividend of 4.0 cents per share which was announced on 24 February 2023.

Austal established an Employee Share Trust (EST) during FY2019 for the purpose of acquiring, holding and transferring shares in connection with equity based remuneration established by the Company for the benefit of participants in those plans. Austal issued 583,721 shares to the trust during the year ended 30 June 2023 for the FY2020 LTI plan, FY2022 STI equity (indeterminate rights) and share rights issued to Non-Executive Directors (30 June 2022: 1,963,866 shares to the trust for the FY2019 LTI plan, FY2021 STI equity (indeterminate rights), and share rights issued to Non-Executive Directors).

## II Reserves

The reserves are shown within the Consolidated Statement of Changes in Equity for the year ended 30 June 2023.

### 1. Foreign currency translation reserve (FCTR)

This reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

### 2. Employee benefits reserve

This reserve is used to:

- Record the value of equity benefits provided to employees and Directors as part of their remuneration, and
- Record the re-measurement of the retirement benefits liability for the Philippines.

Further information relating to share based payment plans for the Group is provided in Note 36.

### 3. Cash flow hedge reserve

This reserve records the portion of the gain or loss on hedging instruments in cash flow hedges that are determined to be effective hedges.

#### 4. Common control reserve

This reserve represents the premium paid on the acquisition of historical minority interests in a controlled entity.

#### 5. Asset revaluation reserve

This reserve is used to record increases in the fair value of land and buildings.

### Note 14 Government grants relating to assets

#### I Net carrying amount

	2023 \$'000	2022 \$'000
<b>Deferred grant income</b>		
<b>Current</b>		
Infrastructure development	(15,324)	(9,728)
Total	<u>(15,324)</u>	<u>(9,728)</u>
<b>Non - current</b>		
Infrastructure development	(100,634)	(93,306)
Total	<u>(100,634)</u>	<u>(93,306)</u>
<b>Total</b>	<u>(115,958)</u>	<u>(103,034)</u>
<b>Movements in grants</b>		
<b>1 July</b>	(103,034)	(67,800)
Grants received during the year	(24,785)	(31,625)
Amortised to the profit and loss	15,573	3,707
Foreign exchange rate adjustment	(3,712)	(7,316)
Net movement	<u>(12,924)</u>	<u>(35,234)</u>
<b>30 June</b>	<u>(115,958)</u>	<u>(103,034)</u>

#### II Recognition and measurement

Austal has received grants from various Government bodies in the USA to fund the infrastructure required for the expansion of the Group's USA operations in Mobile, Alabama.

The fair value of grants related to assets is credited to a deferred income liability account and is released to the Profit and Loss over the expected useful life of the relevant asset.

The fair value of grants related to expense items is recognised as income over the periods necessary to match the grants on a systematic basis to the costs that they are intended to compensate.

Government grants are only recognised when received or when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.



## Working capital

### Note 15 Trade and other receivables

#### I Net carrying amount

	2023 \$'000	2022 \$'000
<b>Trade and other receivables</b>		
Trade amounts owing by unrelated entities	135,297	132,553
Expected credit losses	(250)	(468)
Total	135,047	132,085

#### II Recognition and measurement

Trade receivables represent receivables in respect of which the Group's right to consideration is unconditional subject only to the passage of time. Trade receivables are non-derivative financial assets accounted for in accordance with the Group's accounting policy for non-derivative financial assets as set out in AASB 9 Financial Instruments.

Trade and other receivables are measured at amortised cost. A gain or loss on trade and other financial assets that is subsequently measured at amortised cost is recognised in the Profit and Loss when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

The average credit period on trade receivables ranges from 30 to 45 days in most cases. The Group used the expected credit loss model in determining the recoverability of trade receivables as per AASB 9.

The Group applies the simplified approach permitted by AASB 9 which requires expected lifetime losses to be recognised from initial recognition of the receivables without the need to identify significant increases in credit risk (i.e. no distinction is needed between 12 month and lifetime expected credit losses).

The expected credit loss model requires the Group to account for expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets, meaning that a credit default does not need to have occurred before credit losses are recognised.

#### III Ageing analysis of trade and other receivables

		Not yet due	Days past due				Impaired	Total
			0-30	31-60	61-90	90+		
30 June 2023	\$'000	112,682	8,328	5,433	8,537	317	(250)	135,047
30 June 2022	\$'000	76,506	38,366	2,458	11,804	3,419	(468)	132,085

Past due is defined under AASB 9 to mean any amount outstanding for one or more days after the contractual due date. Past due amounts relate to a number of trade receivable balances where for various reasons the payment terms may not have been met. These receivables have been assessed to be fully recoverable.

#### IV Fair value of trade and other receivables

The carrying amount of the receivables is assumed to be the same as their fair value due to their short term nature.

## Note 16 Prepayments

### I Disclosure

	2023 \$'000	2022 \$'000
<b>Prepayments</b>		
Current	45,730	13,012
Non-current	52,209	3,959
Total	<u>97,939</u>	<u>16,971</u>

### II Recognition and measurement

Prepayments represent goods or services which the Group has paid upfront, to fix pricing and lead times for critical goods or services, but the underlying asset will not be consumed until a future period. The Group expenses the prepayment over the corresponding period that the asset is consumed. During FY2023, Austal USA made prepayments for long lead time materials to fix costs related to future vessel programs.

## Note 17 Inventories and work in progress

### I Net carrying amount

	2023 \$'000	2022 \$'000
<b>Inventories and work in progress</b>		
Work in progress	319,835	255,566
Other inventory	9,302	7,504
Total	<u>329,137</u>	<u>263,070</u>

### II Recognition and measurement

- Stock and finished goods are valued at the lower of cost and net realisable value.
- Cost of stock is determined on the weighted average cost basis.
- Further information relating to work in progress (WIP) is provided in Note 4.

### III Inventories

Inventories includes raw materials and WIP (accrued income) recognised in respect of contracts with customers which have been determined to fulfil the criteria for over time revenue recognition under AASB 15. The Group does not typically build inventory to stock because material is ordered specifically for each shipbuilding project and receipted to WIP on arrival from the supplier. Inventories are stated at the lower of cost and net realisable value in line with AASB 102.

## Note 18 Trade and other payables

### I Disclosure

	2023 \$'000	2022 \$'000
<b>Trade and other payables</b>		
Trade and other payables owed to unrelated entities <sup>1</sup>	(134,586)	(151,726)
Total	<u>(134,586)</u>	<u>(151,726)</u>

1. Trade payables are unsecured and non-interest bearing.

### II Recognition and measurement

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

### III Fair value of trade and other payables

The carrying amounts of trade and other payables are assumed to be the same as their fair values, due to their short term nature.

## Note 19 Provisions

### I Net carrying amount

	Employee Benefits \$'000	Workers' Compensation \$'000	Onerous Contracts \$'000	Warranty \$'000	Remediation \$'000	Other \$'000	Total \$'000
<b>Provisions at 30 June 2022</b>	(57,251)	(5,100)	(10,094)	(12,621)	-	(15,441)	(100,507)
Arising during the year	(153,838)	(6,903)	(163,796)	(6,099)	(10,131)	(598)	(341,365)
Utilised	169,259	3,172	52,524	7,505	-	3,184	235,644
Unused amounts reversed	140	3,713	-	242	-	3,128	7,223
Effects of foreign exchange	(1,240)	(105)	(1,471)	(30)	-	(338)	(3,184)
Movement	14,321	(123)	(112,743)	1,618	(10,131)	5,376	(101,682)
<b>Provisions at 30 June 2023</b>	<b>(42,930)</b>	<b>(5,223)</b>	<b>(122,837)</b>	<b>(11,003)</b>	<b>(10,131)</b>	<b>(10,065)</b>	<b>(202,189)</b>

	Employee Benefits \$'000	Workers' Compensation \$'000	Onerous Contracts \$'000	Warranty \$'000	Remediation \$'000	Other \$'000	Total \$'000
<b>Provisions at 30 June 2022</b>							
Current	(55,069)	(5,100)	(10,094)	(12,621)	-	(15,441)	(98,325)
Non-current	(2,182)	-	-	-	-	-	(2,182)
Total	(57,251)	(5,100)	(10,094)	(12,621)	-	(15,441)	(100,507)
<b>Provisions at 30 June 2023</b>							
Current	(40,345)	(5,223)	(55,559)	(11,003)	(3,600)	(10,065)	(125,795)
Non-current	(2,585)	-	(67,278)	-	(6,531)	-	(76,394)
Total	(42,930)	(5,223)	(122,837)	(11,003)	(10,131)	(10,065)	(202,189)

### II Recognition and measurement

Provisions are recognised when:

- The Group has a present obligation (legal or constructive) as a result of a past event;
- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- A reliable estimate can be made of the amount of the obligation.

Provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability if the effect of the time value of money is material.



### III Information about individual provisions and significant accounting estimates

#### 1. Employee Benefits

Liabilities for wages and salaries, including non-monetary benefits and accumulated sick leave expected to be wholly settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

The Group does not expect its long service leave and annual leave benefits provision to be wholly settled within 12 months of each reporting date. The Group recognises a liability for long service and annual leave measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method.

Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

#### 2. Workers' compensation

A provision for workers' compensation is recognised based on monthly reports received from a claims administrator, American Longshore Mutual Association Limited, (USA) and insurance broker, Aon Risk Services Australia Limited, (Australia) for the expected costs of current claims and claims incurred but not reported at the balance date.

#### 3. Onerous contract (T-ATS Program)

Austral was awarded its first steel construction contract by the United States Navy in September 2021, a build of two Towing, Salvage and Rescue Ships (T-ATS 11 and 12). The contract also provided options for up to three additional T-ATS vessels. Two of the options were exercised and awarded in July 2022 (T-ATS 13 and 14), and the final fifth vessel was awarded in June 2023 (T-ATS 15). These vessels are the first to be constructed in the Company's new steel panel line.

Management conducts quarterly reviews of costs contained within the Estimates at Completion (EACs) of each vessel. During FY2022, this process identified a number of drivers of increased cost that resulted in the program being declared onerous, resulting in the recognition of a provision of \$10.1 million at 30 June 2022. The drivers of the onerous contract provision recognised during FY2022 included cost inflation on materials and labour, as well as cost impacts relating to design specifications and increased bills of material.

Following the completion of updated EACs for the T-ATS program, for which the percentage completion was at very early stages as at 31 December 2022, the onerous provision increased to \$59.6 million at 31 December 2022 due to a range of factors similar to those identified during the FY2022 EAC review, including forecast increases in labour hours and costs. During H2 FY2023, further EAC growth predominantly driven by increases in labour hours resulted in an increased onerous contract provision as at 30 June 2023.

Management have reviewed the EACs as part of the 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 that resulted in a total contract loss of \$182.3 million and an onerous contract provision of \$122.8 million at 30 June 2023.

An independent third party performed a limited scope review in July 2023 of the labour hours contained within the EACs and presented a range of scenarios to management. Management has adopted a probability weighted approach to calculate the onerous contract provision which is balanced between primarily the program office EACs and a lower probability weighting applied to the most likely case from the independent third-party report.

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

## Significant accounting judgement and estimates relating to the T-ATS Program 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 contract. These estimates require significant management judgment, given the time period over which the vessels will be constructed, being FY2024 – FY2027, and are subject to risk and uncertainty and accordingly changes in economic conditions can affect these assumptions. The critical assumptions applied when estimating the present value of the provision are set out below:

**Labour costs:** Represent 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 also 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 are applied to subsequent vessel construction. Learning curve assumptions are based on the actual learning curves experienced on other programs run by the Company. The labour hours sensitivity below reflects a varied or alternate learning curve achievement.

**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% has been applied to the provision based on the time phasing of the estimate to complete / forecast costs.

**Requests for Equitable Adjustment (REA):** Management have assessed submitted REAs and applied judgement to quantify the expected recovery from these claims. Management will continue to review the ability to expand the quantum of the REA and, if justified, submit this for resolution.

**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 and structural complexities.

**Sensitivity analysis performed:** The critical assumptions for which a reasonably possible change in the assumption and the impact to the onerous contract provision have been displayed in the sensitivity table below.

Concept	% Change	Impact on provision	
		\$'000	\$'000
		+	-
Labour Hours	5.0%	10,731	(10,594)
Materials	5.0%	7,711	(7,679)
Overhead Rate	5.0%	4,484	(4,484)

#### **4. Warranties**

A provision for warranty is made upon delivery of each vessel in Australasia based on the estimated future costs of warranty repairs. The estimated future costs are based on the Group's history of warranty claims made on similar vessels within their warranty periods. The Company subsequently monitors the provision to ensure it is adequate for all known warranty claims and an estimation for unknown warranty claims. Any increases or decreases in the provision are recognised in the Profit and Loss for the period.

#### **5. Remediation**

A provision is recognised relating to remediation of the contamination of the Austal Cairns lease site. Austal became party to Deeds of Remediation when it acquired the BSE Maritime business in November 2020. The site is leased from Far North Queensland Ports Corporation Limits (Ports North). The Cairns lease site had historical contamination in the wet lease areas that existed well before 2012 when BSE Maritime assumed the leases.

Austal has undertaken significant work to understand the contamination risk and developed several potential solutions to address the long-term contamination on the site. Austal remains engaged in discussion with Ports North on the immediate and long term obligations, and has confirmed its' willingness to work collaboratively with Ports North based on allocating appropriate resources and attention to dredging or other solutions that will provide a long-term solution for the site which addresses the requirements of both Ports North and Austal.

The remediation provision represents management's best estimate of the costs that will be incurred to fulfill these obligations and involves a significant degree of judgement and estimation uncertainties. Factors considered in the estimation process include the extent of the impacted areas and the complexity of the remediation process. Changes in these factors could impact the ultimate provision amount required.

As more information becomes available or as circumstances change, Austal may need to adjust the remediation provision accordingly. Any adjustments will be recognised in the period when they are identified, and the impact will be disclosed in the appropriate reporting period.

#### **6. Corporate Investigations**

Following resolution of the Australian regulatory investigations with ASIC in October 2022, the Group continues to engage with the US Department of Justice (DOJ) and Securities and Exchange Commission (SEC) regarding their respective investigations into alleged fraudulent activities by former Austal USA personnel during 2013 – 2016. A \$2.5 million (FY2022: \$8.2 million) provision has been recorded based on the best estimate of the probable incremental professional services costs relating to this matter (which sits within 'Other' in the table reflecting net carrying amounts).

Each of the DOJ and SEC have now commenced formal proceedings alleging fraudulent conduct by the three ex-employees. Refer to Note 31 for further information.

#### **7. Dividends**

A provision for dividends is not recognised as a liability unless the dividends are declared, determined or publicly recommended on or before the reporting date. An interim dividend of 4.0 cents per share was issued for the half year 31 December 2022 (FY2022 H1: 4.0 cents per share).

An unfranked dividend of 3.0 cents per share has been declared post year end and is not recognised as a liability for the year ended 30 June 2023 (FY2022 H2: 4.0 cents per share).

## Infrastructure & other assets

### Note 20 Property, plant and equipment

#### I Net carrying amount

	Freehold Land and Buildings \$'000	Leasehold Improvements \$'000	Plant and Equipment \$'000	Capital WIP \$'000	Total \$'000
<b>Balance 30 June 2022</b>					
Gross carrying amount at fair value	742,999	-	-	-	742,999
Gross carrying amount at cost	-	46,020	323,504	44,867	414,391
Accumulated depreciation and impairment	(165,636)	(11,906)	(180,484)	-	(358,026)
Net carrying amount	577,363	34,114	143,020	44,867	799,364
<b>Balance 30 June 2023</b>					
Gross carrying amount at fair value	892,687	-	-	-	892,687
Gross carrying amount at cost	-	51,966	347,266	70,233	469,465
Accumulated depreciation and impairment	(187,211)	(14,895)	(197,505)	-	(399,611)
Net carrying amount	705,476	37,071	149,761	70,233	962,541

#### II Reconciliation of movement for the year

	Freehold Land and Buildings \$'000	Leasehold Improvements \$'000	Plant and Equipment \$'000	Capital WIP \$'000	Total \$'000
<b>Balance 1 July 2021</b>					
	455,264	35,365	131,762	21,819	644,210
Additions	111	-	41,638	74,580	116,329
Transfer in / (out)	43,382	-	10,818	(54,200)	-
Disposals <sup>1</sup>	(5)	-	(31,065)	-	(31,070)
Depreciation charge for the year	(14,978)	(1,782)	(18,420)	-	(35,180)
Impairment (loss)	-	(2,294)	(262)	-	(2,556)
Revaluation	54,773	-	-	-	54,773
Effects of foreign exchange	38,816	2,825	8,549	2,668	52,858
Total	122,099	(1,251)	11,258	23,048	155,154
<b>Balance 30 June 2022</b>					
	577,363	34,114	143,020	44,867	799,364
Additions	48,722	88	23,911	53,836	126,557
Transfer in / (out)	18,720	3,506	7,146	(29,372)	-
Disposals	(18)	(9)	(352)	(845)	(1,224)
Depreciation charge for the year	(19,269)	(1,952)	(27,352)	-	(48,573)
Impairment reversal	-	147	29	-	176
Revaluation	59,439	-	-	-	59,439
Effects of foreign exchange	20,519	1,177	3,359	1,747	26,802
Total	128,113	2,957	6,741	25,366	163,177
<b>Balance 30 June 2023</b>					
	705,476	37,071	149,761	70,233	962,541

1. The disposal relates to the CCPB 9 & 10 derecognition.



### III Recognition and measurement

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses.

Land and buildings are measured at fair value less accumulated depreciation on buildings and any impairment losses recognised after the date of revaluation. Valuations are performed on a regular basis to ensure that the fair value of a revalued asset does not differ materially from its carrying value.

The carrying amount of land and buildings would be recognised as detailed in the table below if they were measured using the historic cost model.

	2023 \$'000	2022 \$'000
<b>Land and Buildings valued using cost model</b>		
Cost	566,384	485,917
Accumulated depreciation and impairment	(156,782)	(140,419)
Net carrying amount	<u>409,602</u>	<u>345,498</u>

Any revaluation surplus is recorded in Other Comprehensive Income and credited to the Asset Revaluation Reserve in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the Profit and Loss, in which case the increase is recognised in the Profit and Loss.

A revaluation deficit is recognised in the Profit and Loss except to the extent that it offsets an existing surplus on the same asset recognised in the Asset Revaluation Reserve.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Any revaluation reserve relating to the particular asset being sold is transferred to retained earnings upon disposal.

### IV De-recognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use.

Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Profit and Loss in the year the asset is derecognised.

### V Key judgements and accounting estimates

#### 1. Impairment of non-financial assets

The Group assesses whether there is an indication that an asset may be impaired at each reporting date. The Group considered impairment triggers including observable indications, significant market, technological, economic or legal changes that have occurred, significant decreases in market interest rates or market rates of return, the market capitalisation of the Group compared to the net assets of the Group, evidence that any major asset or process is obsolete or damaged and other evidence from internal reporting.

Further information relating to impairment testing of non-current assets is provided in Note 23.

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with the recoverable amount being estimated when events or changes in circumstances indicate the carrying value of the asset may be impaired. The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. The estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset in assessing value in use.

The recoverable amount for an asset that does not generate largely independent cash inflows is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

Impairment losses on plant and equipment are recognised in the Profit and Loss.

The asset or cash-generating unit that suffered an impairment is tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

The key assumptions used to determine the recoverable amount for cash-generating units (CGU) are disclosed and further explained in Note 23.

## **2. Estimation of useful lives of assets**

The estimation of the useful lives of assets has been based on historical experience. The condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful life are made when considered necessary.

Depreciation is calculated on a straight-line or diminishing value basis over the estimated useful life of the asset.

The following useful lives have been adopted as follows:

- Buildings – 20 to 40 years.
- Plant and Equipment – 2 to 10 years.
- Leasehold Improvements – term of lease.

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted at the reporting date as appropriate.

## **3. Revaluation of land and buildings**

The Company's land and buildings consist of shipyard facilities in Australia and USA. The Company determined that these constitute one class of asset under AASB 13, based on the nature, characteristics and risk of the property.

The Company engages external, independent valuers to determine the fair value of the land and buildings whom have appropriate qualifications and recent experience in the fair value measurement of land and buildings in the relevant locations. The valuers engaged for 30 June 2023 were members of either the Australian Property Institute or the USA Appraisal Institute.

The valuation methodologies for Australia and the USA utilised a variety of sources and approaches based on highest and best use which is consistent with the Group's current use of the assets, including:

- the cost approach that reflects the cost to a market participant to construct assets of comparable utility and age, adjusted for obsolescence;
- capitalised income projections based on a property's estimated net market income, and a capitalisation rate derived from an analysis of market evidence; and
- current prices in an active market for properties of a different nature or recent prices of similar properties in less active markets, adjusted to reflect those differences.

The independent revaluation is renewed every three to five years or earlier as required. The Company undertakes an assessment in the years in between obtaining independent valuations to ensure that the latest independent valuation remains appropriate and representative of fair value as at the reporting date. The Company categorises the fair value measurement as a level 2 because the inputs and assumptions used in arriving at the fair value are observable.

The last independent revaluation of the Australia land and buildings occurred during FY2023. This resulted in an increase in the valuation of \$9.0 million (before deferred tax) recognised in Other Comprehensive Income.

The last independent revaluation of the USA land and buildings occurred during FY2023. This resulted in an increase in the valuation of \$50.4 million (before deferred tax) recognised in Other Comprehensive Income.

#### 4. Impairment of assets Australasia

The Austal Philippines shipyard and floating dry dock (Austal Lewek Hercules) sustained damage as a result of Typhoon Odette, which struck the Philippines in December 2021. Damages net of insurance proceeds of \$2.6 million were recognised in FY2022 through an impairment charge in cost of sales. In FY2023, there was an impairment reversal of \$0.2 million relating to the impairment charge in the prior year. Further insurance proceeds for the shipyard damage are anticipated but have not been provided for as they do not meet the requirement of virtual certainty.

## Note 21 Leases

### I Amounts recognised in the statement of financial position

	<b>2023</b>	<b>2022</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Right of use assets</b>		
Properties	160,451	152,377
Equipment	1	5
Motor vehicles	16	131
Total	<u>160,468</u>	<u>152,513</u>
	<b>2023</b>	<b>2022</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Lease liability</b>		
Current lease liability	(4,982)	(4,198)
Non-current lease liability	(105,976)	(105,406)
Total	<u>(110,958)</u>	<u>(109,604)</u>

The difference between the right of use assets and lease liability is primarily driven by the purchase of Marine Group Boat Works lease for consideration of US\$33 million (\$47.8 million) in FY2022. An incremental borrowing rate (IBR) of 5.15% was determined. Please see Note 24 for further information.

Additions to the right of use assets during the reporting period were \$13.3 million (FY2022: \$104.3 million). The maturity analysis of lease liabilities is included in Note 27.

## II Amounts recognised in the statement of profit and loss

	2023 \$'000	2022 \$'000
<b>Amounts recognised in the Profit and Loss</b>		
Depreciation for right of use assets		
Properties	(9,564)	(7,753)
Equipment	(3)	(4)
Motor vehicles	(14)	(14)
Total	<u>(9,581)</u>	<u>(7,771)</u>
Interest expense (included in finance costs)	(4,834)	(3,311)
Expense relating to short term leases, low value leases and leases with variable payments	(2,746)	(2,398)
Financing cash flows for repayment of principal element of lease liability	(9,088)	(8,638)

## III Lease liabilities

Liabilities arising from a lease are initially measured on a present value basis by discounting the following lease payments to their present value:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable by the group under residual value guarantees;
- The exercise price of a purchase option if the group is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right of use asset in a similar economic environment with similar terms, security and conditions.

Subsequent to initial recognition, lease liabilities are carried at amortised cost. Payments are allocated between repayment of principal and borrowing costs, which are charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.



#### **IV Right of use assets**

Right of use assets are initially recognised at cost, comprising:

- The amount of the lease liability;
- Any lease payments made at or before the commencement date, less any incentives received;
- Initial direct costs; and
- Restoration costs.

Subsequently, right of use assets are depreciated over the shorter of the asset's useful life and lease term on a straight-line basis.

#### **V Short term leases, leases of low value assets and leases containing variable payments**

Payments associated with short term leases of equipment and vehicles and all leases of low value assets are recognised on a straight-line basis as an expense in profit or loss. Short term leases are leases with a lease term of 12 months or less.

#### **VI Key judgements and accounting estimates**

The Group determines the lease term as the non-cancellable term of the lease. The non-cancellable term is adjusted for periods covered by an option to extend the lease if it is reasonably certain that the option will be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group applies judgement in evaluating whether it is reasonably certain that it will exercise the option to renew or terminate the lease. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

The interest rate implicit in the lease cannot readily be determined. The Group therefore uses an Incremental Borrowing Rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow the funds necessary to obtain an asset of a similar value to the right of use asset, in a similar economic environment, over a similar term and with a similar security. The use of an IBR therefore requires estimation when no observable rates are available.

## Note 22 Intangible assets and goodwill

### I Net carrying amount

	Computer Software \$'000	Goodwill \$'000	Other Intangibles \$'000	Total \$'000
<b>Balance 30 June 2022</b>				
Cost	28,078	31,643	4,161	63,882
Accumulated amortisation and impairment	(25,001)	-	(1,356)	(26,357)
Net carrying amount	3,077	31,643	2,805	37,525
<b>Balance 30 June 2023</b>				
Cost	30,959	31,870	4,310	67,139
Accumulated amortisation and impairment	(27,068)	-	(1,743)	(28,811)
Net carrying amount	3,891	31,870	2,567	38,328

### II Reconciliation of movement for the year

	Computer Software \$'000	Goodwill \$'000	Other Intangibles \$'000	Total \$'000
<b>Balance 1 July 2021</b>				
	3,557	31,131	2,883	37,571
Additions	767	-	-	767
Disposals	(31)	-	-	(31)
Amortisation for the year	(1,426)	-	(311)	(1,737)
Effects of foreign exchange	210	512	233	955
Total	(480)	512	(78)	(46)
<b>Balance 30 June 2022</b>				
	3,077	31,643	2,805	37,525
Additions	2,066	-	-	2,066
Disposals	-	-	-	-
Amortisation for the year	(1,331)	-	(330)	(1,661)
Effects of foreign exchange	79	227	92	398
Total	814	227	(238)	803
<b>Balance 30 June 2023</b>				
	3,891	31,870	2,567	38,328

### III Recognition and measurement

Intangible assets acquired separately are initially measured at cost and subsequently carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is charged against the Profit and Loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least once per financial year.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, which results in a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in the Statement of Comprehensive Income in the expense category consistent with the function of the intangible asset.

A summary of the policies applied to the Group's intangible assets is as follows:

#### 1. Computer software

Computer software is initially measured at cost and amortised on a diminishing value basis over the estimated useful life of each asset.

The following useful lives have been adopted as follows:

- Computer software – 2 to 5 years.

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted at the reporting date as appropriate.

#### 2. Goodwill

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed in a business combination.

Goodwill is measured at cost less any accumulated impairment losses after initial recognition. Goodwill acquired in a business combination is allocated to each of the Group's Cash Generating Units (CGU) that are expected to benefit from the combination from the acquisition date for the purpose of impairment testing, irrespective of whether other assets or liabilities acquired are assigned to those units.

Goodwill is tested annually for impairment regardless of whether impairment indicators are identified. The impairment is determined for goodwill by assessing the recoverable amount of each CGU or group of CGUs to which the goodwill relates. An impairment loss is recognised when the recoverable amount of the CGU is less than its carrying amount. Impairment losses relating to goodwill cannot be reversed in future periods.

Goodwill allocated to a CGU that has a partial disposal of the operation within that unit is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

## Note 23 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 \$6.7 million
- Australasia Support – a carrying amount of \$25.2 million

### IV Assessment of recoverable amounts and sensitivity to changes in assumptions

For the year ended 30 June 2023, management assessed whether there were any indicators of impairment. The Company's market capitalisation at 30 June 2023 was below its net assets and management considered this factor as an impairment indicator at 30 June 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.

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.

#### 1. 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 there were multiple shipbuilding awards replenishing the order book. The OPC and T-AGOS 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.



## **2. 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 the expansion of the San Diego operations which were established in December 2021 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.

## **3. Australasia Shipbuilding**

In its assessment for indicators of impairment as at 30 June 2023, the Company concluded that a trigger was present within the Australasia Shipbuilding CGU due to the lack of new vessel awards in FY2023.

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 are the likelihood of further defence contracts arising following the release of Navy's Surface Combatant Fleet Review expected early FY2024 and commercial shipbuilding awards that 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.

### *Impairment sensitivity:*

It was identified that failure to secure further commercial and defence shipbuilding contracts in FY2024 beyond completion of the Guardian-class Patrol Boats and Cape-class Patrol Boats 11 – 18 would result in an impairment.

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

## **4. Australasia Support**

In addition to the impairment trigger identified due to the presence of the market capitalisation deficit, an annual impairment assessment is also required as goodwill has been allocated to the CGU. 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, 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

### 1. 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	9.5%	9.5%	9.5%	9.5%
Average inflation on costs	3.2%	3.2%	4.0%	4.0%

### 2. 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 - the expansion of the San Diego operations 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 Navy's Surface Combatant Fleet Review 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.

### 3. 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.

### 4. Perpetuity growth rate

Austal has taken a conservative view and included a 0% (FY2022: 0%) perpetuity growth rate in Australasia and a 2.5% (FY2022: N/A) perpetuity growth rate in USA in its calculation of the terminal value.

### 5. 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 9.5% (FY2022: 9.3%) for the USA and Australasian CGUs.

## 6. 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 for a period of 10 years 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 30 June 2023.

## Note 24 Marine Group Boat Works (MGBW) asset purchase

Austal USA acquired assets and leases through an asset acquisition from Marine Group Boat Works (MGBW) on 15 December 2021.

The right of use asset and corresponding lease liability at acquisition was valued at US\$38.7 million. The right of use asset included a commitment of US\$13.3 million to capital investments within the first five years of the lease. The IBR of 5.15% was determined and applied to opening balances. The lease had a duration of 29 years to November 2050.

The purchase consideration of US\$33.5 million was separately assigned to the net book value of the property, plant & equipment acquired of US\$0.5 million and an additional right of use asset of US\$33.0 million. The additional right of use asset was associated with the future economic benefits which the lease will provide in the expansion of Austal USA's Support business. The additional right of use asset is being depreciated on a straight-line basis over the term of the lease. There is no corresponding lease liability for this additional right of use asset as it represents the purchase consideration paid.

Please refer to 30 June 2022 Annual Report for further information.

## Note 25 Investments and other financial assets

### I Net carrying amount

	2023 \$'000	2022 \$'000
<b>Other financial assets</b>		
Collateral <sup>1</sup>	14,994	14,025
Security deposits	1,295	908
Total	<u>16,289</u>	<u>14,933</u>

1. Austal USA has a legal obligation to provide cash collateral to ensure that workers' compensation claims will be paid if they are upheld.

### II Recognition and measurement

The Group classifies its financial assets in the following measurement categories:

- Financial Assets to be measured subsequently at fair value (either through Other Comprehensive Income, or through the Profit and Loss); and

- Financial Assets to be measured at amortised cost.

The Group measures a financial asset at initial recognition at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset in the case of a financial asset not measured at fair value through the Profit and Loss.

The Group subsequently measures derivative financial instruments at fair value. Gains and losses on derivative financial instruments that do not qualify for hedge accounting are recognised in the Profit and Loss for the period. The effective portion of any change in the fair value of a derivative financial instrument designated as a cash flow hedge is recognised in Other Comprehensive Income and presented in the Cash Flow Hedge Reserve in equity. Amounts recognised in equity are reclassified from reserves into the cost of the underlying transaction and recognised in the Profit and Loss when the underlying transaction affects the Profit and Loss. The ineffective portion of any change in the fair value of the instrument is recognised in the Profit and Loss immediately. Where a derivative financial instrument is designated as a fair value hedge, changes in the fair value of the underlying asset or liability attributable to the hedge risk, and gains and losses on the derivative financial instrument, are recognised in the Profit and Loss for the period.

Collateral in the statement of financial position comprises collateral deposits with an original maturity of one year or more. Collateral and security deposits are classified as receivables and measured at amortised cost.

## Note 26 Other non-current assets

### I Net carrying amount

	2023 \$'000	2022 \$'000
<b>Research and development credits</b>		
<b>Recognised</b>		
USA	-	-
Total	<u>-</u>	<u>-</u>
<b>Unrecognised</b>		
Australia	14,089	18,983
Total	<u>14,089</u>	<u>18,983</u>

### II Recognition and measurement

All USA R&D credits that were generated have been utilised to partially offset the FY2023 income tax liability and hence there are no carried forward R&D credits as at 30 June 2023.

### III Unrecognised R&D credits

A non-current asset has not been recognised in relation to \$14.1 million (FY2022: \$19.0 million) of carry forward R&D tax credits that have been generated in the Australian Consolidated Tax Group because there is sufficient uncertainty in the Group's ability to utilise these in the short term. The Group will continue to assess the recognition criteria against the probability of future taxable profits.



# Financial risk management

## Note 27 Financial risk management

This note explains the Group's exposure to financial risks and how these risks could affect future financial performance. Current year Profit and Loss information has been included where relevant to add further context.

<b>Risk</b>	<b>Exposure arising from</b>	<b>Monitoring</b>	<b>Management</b>
Market risk - interest rate	Long-term borrowings at variable rates	Sensitivity analysis	Sustainable gearing levels across business cycles
Market risk - interest rate	Cash, trade receivables and derivative financial instruments	Sensitivity analysis	Excess cash invested in high-interest deposit accounts
Market risk - foreign currency	Future commercial transactions and recognised financial assets and liabilities not denominated in the functional currency	Cash flow forecast, Sensitivity analysis	Forward foreign exchange contracts and forward currency options
Credit risk	Cash, short term deposits, trade receivables and derivative financial instruments	Ageing analysis, Credit ratings	Monitoring of credit allowances
Liquidity	Borrowings, trade payables and derivative financial instruments	Rolling cash flow forecasts	Availability of committed credit lines and borrowing facilities

### Objectives and policy

The objective of the Group's financial risk management policy is to reduce the impacts of external threats to the Group and to afford the opportunity to seek further investments.

Ultimate responsibility for identification and control of financial risks rests with the Board of Directors. The Board reviews and agrees policies for managing each of the risks identified below, including hedging cover of foreign currency, credit allowances and future cash flow forecast projections.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in the relevant notes to the financial statements.

### I Market risk

Market risk is the risk that changes in interest rates and foreign exchange rates will affect the Group's earnings, cash flows and carrying values of its financial statements.

#### 1. Interest rate risk

##### Source of risk

The Austal Group is exposed to interest rate risk from changes in interest rates on its outstanding borrowings, derivative instruments and investments from the possibility that changes in interest rate risk will affect future cash flows or the fair value of financial instruments.

##### Risk mitigation

The cash, debt and bank covenants of the Group are monitored and re-forecasted on a monthly basis in order to monitor interest rate risk. A variable interest rate policy is maintained to ensure repayments are carried out as soon as practicable, where fixed interest rates are less flexible. Consideration is given to potential renewal of existing positions and alternative financing structures.

## Exposure

The Group had the following exposures to interest rate risk at the end of the reporting period:

	2023 \$'000	2022 \$'000
<b>Financial assets</b>		
Cash and cash equivalents	179,201	240,113
Derivative contracts	1,445	5,899
Total	180,646	246,012
<b>Financial liabilities</b>		
Interest bearing liabilities	(129,499)	(124,515)
Derivative contracts	(1,484)	(2,318)
Total	(130,983)	(126,833)
<b>Net exposure</b>	<b>49,663</b>	<b>119,179</b>

## Sensitivity

Profit and Loss is sensitive to higher or lower interest income from cash and cash equivalents and interest expenses on borrowings as a result of changes in interest rates. There would be no material impact on other components of Equity as a result of changes in interest rates.

The following table demonstrates the sensitivity to a reasonable change in interest rates to the Profit and Loss after tax. A normal level of volatility has been assessed as 100 basis points and the sensitivity below has been calculated on that basis.

	2023 \$'000	2022 \$'000
<b>Post tax gain / (loss)</b>		
+1.00% (100 basis points)	396	1,352
-1.00% (100 basis points)	(396)	(1,352)

The sensitivity analysis assumes that the change in interest rates is effective from the beginning of the financial year and the balances are constant over the year.

## 2. Foreign currency risk

### Source of risk

The Group is exposed to currency risk on sales, purchases or components for construction that are denominated in a currency other than the respective functional currencies of the Group entities, primarily Australian Dollars (AUD) for the Australia operations and US Dollars (USD) for the USA, Philippines and Vietnam operations. The Group is also exposed to foreign exchange movements (primarily in USD) on the translation of the earnings, assets and liabilities of its foreign operations.

The Group's transactions are primarily denominated in USD, AUD and EUR.

## Risk mitigation

The Group's objective is to minimise the risk of a variation in the rate of foreign exchange used to convert foreign currency revenues and expenses and assets or liabilities to the functional currency of each Group entity by utilising the following techniques:

- Negotiation of contracts to adjust for adverse exchange rate movements.
- Using natural hedges.
- Using financial instruments, such as foreign currency exchange contracts and swaps.

## Exposure

The Group's financial assets and liabilities exposed to foreign currency risk at 30 June 2023 were:

	All values are stated in AUD equivalent				Total \$'000
	AUD \$'000	USD <sup>1</sup> \$'000	EUR <sup>2</sup> \$'000	Other \$'000	
<b>Balance 30 June 2023</b>					
<b>Financial assets</b>					
Cash and cash equivalents	148	268	8	1,089	1,513
Trade and other receivables	-	-	-	2,002	2,002
Derivatives	-	1,015	221	209	1,445
<b>Total</b>	<b>148</b>	<b>1,283</b>	<b>229</b>	<b>3,300</b>	<b>4,960</b>
<b>Financial liabilities</b>					
Trade and other payables	(150)	(185)	-	(438)	(773)
Derivatives	(603)	(19)	(742)	(120)	(1,484)
<b>Total</b>	<b>(753)</b>	<b>(204)</b>	<b>(742)</b>	<b>(558)</b>	<b>(2,257)</b>

	All values are stated in AUD equivalent				Total \$'000
	AUD \$'000	USD <sup>1</sup> \$'000	EUR <sup>2</sup> \$'000	Other \$'000	
<b>Balance 30 June 2022</b>					
<b>Financial assets</b>					
Cash and cash equivalents	255	1,599	32	1,590	3,476
Trade and other receivables	-	-	-	692	692
Derivatives	-	1	5,769	129	5,899
<b>Total</b>	<b>255</b>	<b>1,600</b>	<b>5,801</b>	<b>2,411</b>	<b>10,067</b>
<b>Financial liabilities</b>					
Trade and other payables	(5)	(9)	(7)	(523)	(544)
Derivatives	(836)	(4)	(1,131)	(347)	(2,318)
<b>Total</b>	<b>(841)</b>	<b>(13)</b>	<b>(1,138)</b>	<b>(870)</b>	<b>(2,862)</b>

1. Spot USD / AUD exchange rate at 30 June 2023 was 0.6666 (30 June 2022: 0.6901).

2. Spot EUR / AUD exchange rate at 30 June 2023 was 0.6108 (30 June 2022: 0.6582).

## Sensitivity

A 10 per cent strengthening or weakening of the Australian Dollar against the following currencies would have increased / (decreased) net profit after tax and equity below at balance date with all other variables held constant as illustrated:

	NPAT higher / (lower)		Equity higher / (lower)	
	2023	2022	2023	2022
	\$'000	\$'000	\$'000	\$'000
<b>Judgement of reasonable possible movements</b>				
USD / AUD - 10% lower	4,590	2,240	227,871	188,053
USD / AUD - 10% higher	(3,756)	(1,832)	(188,313)	(155,425)
EUR / AUD - 10% lower	372	333	393	(3,258)
EUR / AUD - 10% higher	(305)	(273)	(321)	2,666

1. Spot USD / AUD exchange rate at 30 June 2023 was 0.6666 (30 June 2022: 0.6901).
2. Spot EUR / AUD exchange rate at 30 June 2023 was 0.6108 (30 June 2022: 0.6582).

The foreign currency translation of USD denominated net assets would have significantly affected the equity at the reporting date. The Group had US\$675.8 million of USD denominated net assets at 30 June 2023 (FY2022: US\$483.4 million).

## Summary of forward foreign exchange contracts

The following table summarises the AUD equivalent value of the forward foreign exchange agreements by currency. Foreign currency amounts are translated at rates current at the reporting date.

The 'Buy' amounts represent the AUD equivalent of commitments to purchase foreign currencies, and the 'Sell' amounts represent the AUD equivalent of commitments to sell foreign currencies.

	2023				2022			
	Buy		Sell		Buy		Sell	
	Average Forward Rate	AUD Equivalent \$'000	Average Forward Rate	AUD Equivalent \$'000	Average Forward Rate	AUD Equivalent \$'000	Average Forward Rate	AUD Equivalent \$'000
<b>USD</b>		Buy USD		(Sell USD)		Buy USD		(Sell USD)
less than 3 months	0.7011	20,213	0.7316	(6,372)	0.7102	12,491	0.7366	(471)
3 - 12 months	0.6819	3,521	0.6990	(7,086)	0.7307	12,789	0.7391	(15,581)
> 12 months	0.6680	302	0.6868	(16,566)	-	-	0.7310	(4,769)
Total		24,036		(30,024)		25,280		(20,821)
<b>EUR</b>		Buy EUR		(Sell EUR)		Buy EUR		(Sell EUR)
less than 3 months	0.6212	3,143	0.6241	(2,813)	0.5714	177	0.5987	(11,089)
3 - 12 months	0.5940	6,331	0.6314	(70)	0.5846	3,331	0.5983	(43,756)
> 12 months	0.6098	8,517	0.6056	(541)	0.5616	2,628	0.6313	(298)
Total		17,991		(3,424)		6,136		(55,143)



## II Credit risk

Credit risk is the risk of financial loss to the Group as a result of customers or counterparties to financial assets failing to meet their contractual obligations.

### 1. Source of risk

The Group is exposed to counterparty credit risk from trade and other receivables and financial instrument contracts that are outstanding at the reporting date.

### 2. Risk mitigation

#### Trade receivables

The Group only trades with recognised, creditworthy third parties. The Group's policy is that all customers who wish to trade on credit terms are subject to credit verification procedures, which are conducted internally. The Group, while exposed to credit related losses in the event of non-performance by counterparties to financial instruments, does not expect counterparties to fail to meet their obligations given their credit ratings.

The Group minimises concentrations of credit risk and the risk of default of counterparties in relation to cash and cash equivalents and financial instruments by spreading them amongst a number of financial institutions.

Vessel sales contracts are structured to ensure that the Group is paid milestone progress payments from the client to cover the ongoing cost of the vessel construction.

#### Financial instruments

The Group's policy is to minimise the risk that the principal amount will not be recovered and the risk that funds will not be available when required whilst at the same time obtaining the maximum return relative to the risk. The Group's policy is to restrict its investment of surplus cash funds to financial institutions with a Standard and Poor's credit rating of at least A-2, and for a period not exceeding 3 months to manage this risk. The Group is able to undertake investments in short term deposits to achieve this objective.

#### Other financial assets

The Group's exposure to counterparty credit default risk arising from the other financial assets of the Group, which comprise cash and cash equivalents and certain derivative instruments, is equal to the carrying amount of these instruments. The maximum exposure to credit risk at the reporting date is disclosed in Note 15.

Cash and term deposits are predominantly held with three tier-one financial institutions which are considered to be low credit risk.

## III Liquidity risk

Liquidity risk is the risk that the Group is not able to refinance its debt obligation or meet other cash outflow obligations when required.

### 1. Source of risk

Exposure to liquidity risk derives from the Group's operations and from the external interest bearing liabilities that it holds.

### 2. Risk mitigation

The liquidity position of the Group is managed to ensure sufficient liquid funds are available to meet financial commitments in a timely and cost-effective manner.

The Group's policy is to continually review the Group's liquidity position including cash flow forecasts to determine the forecast liquidity position and maintain appropriate liquidity levels. Critical assumptions include input costs, project pipeline, exchange rates and capital expenditure.

The Group aims to hold a minimum liquidity buffer of \$60 million between cash on hand and undrawn non-current committed funding to meet any unforeseen cash flow requirements.

Further information relating to the Group's committed finance facilities, including the maturity dates of these facilities, is provided in Note 10 and Note 11.

### 3. Exposure

The contractual cash flow and maturities of financial liabilities, including interest payments are as follows:

	Years to maturity			Total <sup>1</sup> \$'000
	0 - 1 \$'000	1 - 5 \$'000	> 5 \$'000	
<b>Balance 30 June 2023</b>				
<b>Derivative financial assets / (liabilities)</b>				
Outflow	(40,615)	(18,290)	-	(58,905)
Inflow	40,785	17,744	-	58,529
Net derivative financial assets / (liabilities)	170	(546)	-	(376)
<b>Non-derivative financial liabilities</b>				
Trade and other payables	(120,408)	-	-	(120,408)
Go Zone Bond facility	-	(131,441)	-	(131,441)
Lease liabilities	(8,907)	(26,126)	(135,843)	(170,876)
Total	(129,315)	(157,567)	(135,843)	(422,725)

	Years to maturity			Total <sup>1</sup> \$'000
	0 - 1 \$'000	1 - 5 \$'000	> 5 \$'000	
<b>Balance 30 June 2022</b>				
<b>Derivative financial assets / (liabilities)</b>				
Outflow	(73,754)	(5,710)	-	(79,464)
Inflow	78,531	5,077	-	83,608
Net derivative financial assets / (liabilities)	4,777	(633)	-	4,144
<b>Non-derivative financial liabilities</b>				
Trade and other payables	(127,942)	-	-	(127,942)
Go Zone Bond facility	-	(125,211)	-	(125,211)
Lease liabilities	(8,717)	(30,712)	(159,277)	(198,706)
Total	(136,659)	(155,923)	(159,277)	(451,859)

1. Contractual cash flows include interest.

The Group had \$50.0 million (FY2022: \$50.0 million) of unused cash loan credit facilities available for immediate use at the reporting date and \$179.2 million (FY2022: \$240.1 million) in cash and cash equivalents, which can be used to meet its liquidity needs.

## **IV Offsetting financial instruments**

The Group presents its assets and liabilities on a gross basis. Derivative financial instruments entered into by the Group are subject to enforceable master netting arrangements such as the International Swaps and Derivatives Associations (ISDA) master netting agreement. All outstanding transactions under an ISDA agreement are terminated in certain circumstances, for example, when a credit event such as a default occurs. The termination value is assessed and only a single net amount is payable in settlement of all transactions.

The amounts set out in the liquidity risk table represent the derivative financial assets and liabilities of the Group that are subject to those arrangements and are presented on a gross basis.

## **Note 28 Derivatives and hedging**

### **I Cash flow hedges**

The effective portion of any change in the fair value of a derivative financial instrument designated as a hedge of cash flows relating to a highly probable forecast transaction (income or expense) is recognised in Other Comprehensive Income and presented in the Cash Flow Hedge Reserve in equity. The ineffective portion of any change in the fair value of the instrument is recognised in the Profit and Loss immediately.

### **II Fair value hedges**

Where a derivative financial instrument is designated as a fair value hedge, changes in the fair value of the underlying asset or liability attributable to the hedged risk, and gains and losses on the derivative instrument, are recognised in the Profit and Loss for the period.

### **III Fair value through profit and loss**

Gains and losses on derivative financial instruments that do not qualify for hedge accounting are recognised in the Profit and Loss for the period.

### **IV Financial liabilities**

Loans, overdrafts, and trade and other payables are measured at amortised cost, except where fair value hedge accounting is applied.

## Note 29 Fair value measurements

### I Fair value

The value of the Group's financial assets and liabilities is calculated using the following techniques depending on the type of financial instrument as follows:

- The fair value of financial assets and financial liabilities traded in active markets is the quoted market price at the reporting date.
- The fair value of forward exchange contracts is calculated using discounted cash flows, reflecting the credit risk of various counterparties. Future cash flows are calculated based on the contract rate, observable forward interest rates and foreign exchange rates. Adjustments for the currency basis are made at the end of the reporting period.
- The nominal value less expected credit losses of trade receivables and payables are assumed to approximate their fair values due to their short term maturity.

#### 1. Fair value hierarchy

The table below analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Balance 30 June 2023</b>				
<b>Financial assets</b>				
Derivatives	-	1,445	-	1,445
<b>Financial liabilities</b>				
Derivatives	-	(1,484)	-	(1,484)
<b>Balance 30 June 2022</b>				
<b>Financial assets</b>				
Derivatives	-	5,899	-	5,899
<b>Financial liabilities</b>				
Derivatives	-	(2,318)	-	(2,318)

#### 2. Fair value of financial assets and liabilities carried at amortised cost

Cash and cash equivalents, trade and other receivables, and trade and other payables are carried at amortised cost which equals their fair value.

Interest bearing liabilities are carried at amortised cost and have a carrying value of \$129.5 million (30 June 2022: \$124.5 million) which equals their fair value. Further information is provided in Note 11.



## Unrecognised items

### Note 30 Commitments and contingencies

	2023 \$'000	2022 \$'000
<b>Capital commitments</b>		
Property, plant and equipment	(31,056)	(13,566)
Total	<u>(31,056)</u>	<u>(13,566)</u>
<b>Guarantees</b>		
Bank performance guarantees <sup>1</sup>	(21,103)	(116,396)
Sureties	(866)	(835)
Total	<u>(21,969)</u>	<u>(117,231)</u>

1. The bank performance guarantees are secured by a mortgage over land and buildings and floating charges over cash, receivables, work in progress that is not owned by customers and plant and equipment.

#### I Commitments - Guarantees

Refer to Note 11 for information regarding performance guarantees.

#### II 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 31 Corporate Investigations

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.

Following their investigations, on 31 March and 1 April 2023 respectively the DOJ and SEC commenced formal proceedings against 3 ex-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 reporting inaccurately overstated progress on the LCS contract. This 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 3 ex-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 the group is engaging with both the DOJ and the SEC to fully understand the nature of any potential allegations or proceedings against either company, and to work constructively towards a negotiated outcome of same. 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 whether there are any potential consequences arising from matters identified by the investigation in the US, as well as ensuring such circumstances do not happen again.

Nevertheless, it is still possible that the US regulatory investigations could lead to civil or criminal proceedings resulting in the application of penalties, damages, and/or possibly suspension or debarment from future US Government contracts.

Although no indictments or charges have been made against Austal Limited or Austal USA at the current time, typically the kinds of remedies available to the DOJ and SEC can include:

- Non-prosecution agreements, deferred prosecution agreements or potentially seeking a plea of guilty by one or more group companies to alleged offences;
- 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; and

- The imposition of fines or penalties, which can also include a requirement for restitution of losses if these have been sustained by shareholders. The extent of the fines or penalties are subject to many factors including the DOJ sentencing guidelines which consider a number of quantitative and qualitative factors.

Given the range of potential remedies and outcomes, the Group is currently not able to determine the potential magnitude of fines or penalties if any that may be levied or what other measures may be required as part of any negotiated outcome, since the matter is still under discussion with regulators. As a result the Group is not in a position to make any provision for such fines, penalties or other adverse outcomes at this stage. Any of these potential outcomes could have a material adverse effect on the Group's consolidated financial position, results of operations, or cash flows.

## **Note 32    Events after the balance date**

### **I    Dividend proposed**

An unfranked final dividend of 3.0 cents per share has been declared for FY2023 post 30 June 2023 (FY2022 final: 4.0 cents per share, unfranked).

### **II    Other**

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

## The Group, management and related parties

### Note 33 Parent interests in subsidiaries

The consolidated financial statements include the financial statements of Austal Limited and the material subsidiaries listed in the following table.

Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the group, and the proportion of ownership interests held equals the voting rights held by the group.

Company	Country of incorporation	Principal place of business	Equity Interest	
			2023	2022
Austal Ships Pty Ltd	Australia	Australia	100%	100%
Austal Muscat LLC <sup>1</sup>	Oman	Oman	70%	70%
Austal Service Darwin Pty Ltd	Australia	Australia	100%	100%
Austal UK Ltd	United Kingdom	United Kingdom	100%	100%
Austal Viet Nam Co Ltd	Vietnam	Vietnam	100%	100%
Austal Holdings Inc	USA	USA	100%	100%
Austal USA LLC	USA	USA	100%	100%
Austal USA Service LLC	USA	USA	100%	100%
Austal USA Advanced Technologies Inc	USA	USA	100%	100%
Austal Philippines Pty Ltd	Australia	Philippines	100%	100%
Austal Lewek Hercules Inc	Philippines	Philippines	100%	100%
Austal Australasia Pty Ltd	Australia	Australia	100%	100%
Austal Cairns Pty Ltd	Australia	Australia	100%	100%
Austal Brisbane Pty Ltd	Australia	Australia	100%	100%

1. Austal Ships Pty Ltd owns 70% of the shareholdings in Austal Muscat LLC but consolidates 100% of profits less commission paid to the minority interest holder.

### Note 34 Related party disclosures

Group policy is that all transactions with related parties are conducted on commercial terms and conditions.

No related party transactions occurred with the consolidated entity other than the remuneration of Directors and KMP and the matters disclosed in this report.

### Note 35 Key management personnel (KMP) compensation

KMP Compensation	2023	2022
	\$'000	\$'000
Short-term employee benefits	4,016	5,498
Post-employment benefits	298	227
Long term benefits	66	27
Share-based payments	760	542
Total	5,140	6,294

Detailed remuneration disclosures are provided in the Remuneration Report commencing on page 23.

## Note 36 Share based payments

### I Performance rights

The following changes in performance rights took place during the year:

Grant Year	Balance at 30 June 2022	Granted	Vested	Forfeited / Lapsed	Balance at 30 June 2023	Expiry date
FY2021	739,628	-	-	(739,628)	-	30 Jun 2023
FY2022	1,943,748	-	-	(218,052)	1,725,696	30 Jun 2024
FY2023	-	1,870,548	-	(128,130)	1,742,418	30 Jun 2025
Total	<u>2,683,376</u>	<u>1,870,548</u>	<u>-</u>	<u>(1,085,810)</u>	<u>3,468,114</u>	

The Board has the discretion to decide if performance rights will lapse or vest.

### II Service rights

The following changes in service rights took place during the year:

Grant Year	Balance at 30 June 2022	Granted	Vested	Forfeited / Lapsed	Balance at 30 June 2023	Expiry date
FY2020	298,110	-	-	(34,913)	263,197	30 Jun 2024
FY2021	365,332	-	-	(47,834)	317,498	30 Jun 2025
FY2022	581,472	-	-	(60,354)	521,118	30 Jun 2026
FY2023	-	584,520	-	(63,540)	520,980	30 Jun 2027
Total	<u>1,244,914</u>	<u>584,520</u>	<u>-</u>	<u>(206,641)</u>	<u>1,622,793</u>	

Service rights were introduced in FY2020 to offer a long term incentive to non-KMP. Service rights have a vesting period of 5 years. The only vesting criteria is fulfilment of the 5 year service period.

### III Recognition - equity settled transactions

The Group provides benefits to employees (including KMP) of the Group in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity settled transactions).

Equity settled benefits have been provided to senior management and Directors under the following plans in the current and prior years:

- The Long Term Incentive Plan (LTI Plan)
- The Short Term Incentive Plan (STI Plan)
- TFR share rights

No account is taken of any performance conditions, other than conditions linked to the price of the shares of Austal Limited (market conditions) if applicable in valuing equity settled transactions.



The cost of these equity settled transactions with employees is recorded by reference to the fair value at the date at which they are granted. The cost of equity settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that will ultimately vest in the opinion of the Directors of the Group. This opinion is formed based on the best available information at the reporting date. No adjustment is made for the likelihood of market performance conditions being met because the effect of these conditions is included in the determination of fair value at grant date. The Profit and Loss charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition. An expense is recognised as if the terms had not been modified. An expense is also recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

An equity settled award that is cancelled is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately, however, cancelled awards and new awards are treated as if they were a modification of the original award if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, as described in the previous paragraph.

Shares in the Group held by the Employee Share Trust (EST) are classified and disclosed as Reserved Shares and deducted from equity in the Statement of Changes in Equity. Further information relating to Reserved Shares is provided in Note 13.

#### IV Recognised share-based payment expenses

The expense recognised for share based payments during the year is shown in the table below:

	2023 \$'000	2022 \$'000
<b>Share-based payments expense</b>		
Expense arising from equity-settled share-based payment transactions	(2,442)	(2,850)

#### V Significant accounting judgements and estimates

The Group is required to estimate the fair value of equity-settled share-based payment transactions with employees at the grant date. Estimating the fair value requires determination of the most appropriate valuation model which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share rights, volatility and dividend yield.

The Group has applied the Black Scholes option pricing model to estimate the fair value of the rights with non-market based vesting conditions. A hybrid employee share option pricing model has been applied to estimate the fair value of rights with market based vesting conditions.

## Note 37 Parent entity information

Information relating to Austal Limited, the parent entity, is detailed below:

	2023	2022
	\$'000	\$'000
<b>Balance sheet</b>		
<b>Assets</b>		
Current	163,243	163,967
Non - current	328,028	317,948
Total	<u>491,271</u>	<u>481,915</u>
<b>Liabilities</b>		
Current	(8,482)	(11,239)
Non - current	(6,602)	(1,275)
Total	<u>(15,084)</u>	<u>(12,514)</u>
<b>Net assets</b>	<u>476,187</u>	<u>469,401</u>
<b>Equity</b>		
Contributed equity	144,518	143,932
Employee benefits reserve	10,111	8,255
Asset revaluation reserve	17,665	11,332
Cash flow hedge reserve	373	90
Retained earnings	303,520	305,792
Total	<u>476,187</u>	<u>469,401</u>
<b>Income</b>		
Net profit after tax	26,700	124,010
Total comprehensive income	33,317	124,049

Austal Limited provides parent company guarantees in respect of contract performance by various members of the Austal Group including Austal USA LLC, Austal Ships Pty Ltd, Austal Philippines Pty Ltd and Austal Holdings Vietnam Pty Ltd.

## 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 30 June 2023 and of its performance for the year ended on that date; and
- Complying with Accounting Standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001.
- The financial Statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2.

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.

This declaration has been made after receiving the declarations required to be made to the Directors in accordance with sections 295A of the Corporations Act 2001 for the financial period ending 30 June 2023.



John Rothwell AO  
Chairman

on behalf of the Board

31 August 2023

# Independent audit report to the members of Austal Limited



Deloitte Touche Tohmatsu  
ABN 74 490 121 060

Tower 2  
Brookfield Place  
123 St Georges Terrace  
Perth WA 6000  
GPO Box A46  
Perth WA 6837 Australia

Tel: +61 8 9365 7000  
Fax: +61 8 9365 7001  
www.deloitte.com.au

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

### Report on the Audit of the Financial Report

#### *Opinion*

We have audited the financial report of Austal Limited (the "Company") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 30 June 2023, the consolidated statement of profit and loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- Giving a true and fair view of the Group's financial position as at 30 June 2023 and of its financial performance for the year then ended; and
- Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### *Basis for Opinion*

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the 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 & 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 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 report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Key Audit Matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p><b>Revenue recognition</b></p> <p>As disclosed in Note 4, Shipbuilding revenue for the year ended 30 June 2023 was \$1,218 million (USA Shipbuilding \$998 million, Australasia Shipbuilding \$220 million – refer Note 3).</p> <p>Vessel construction revenues are recognised over time as performance obligations are fulfilled after assessing factors relevant to each contract, including the following, as applicable:</p> <ul style="list-style-type: none"> <li>• determining the stage of completion and measurement of progress towards satisfaction of performance obligations;</li> <li>• estimating total contract revenue and costs, including the estimation of contingencies, the most significant elements of which relate to the recognition of cost contingencies on the LCS and EPF programs in USA Shipbuilding;</li> <li>• determining the contractual entitlement, and assessment of customer approval of contract modifications, variations, and acceptance of claims; and</li> <li>• We focused on recognition of vessel construction revenue as a key audit matter due to the number and type of estimation events over the course of a contract life, the unique nature of individual contract terms, and the high level of judgement required in estimating and accounting for cost contingencies.</li> </ul>	<p>Our audit procedures performed in relation to revenue recognition included but were not limited to:</p> <ul style="list-style-type: none"> <li>• evaluating the design and implementation of controls in respect of the underlying project costs and the recognition of revenue, and testing the operating effectiveness of relevant controls;</li> <li>• holding discussions with key project managers on the risks and opportunities in relation to certain individual contracts;</li> <li>• selecting a sample of contracts for testing based on a number of quantitative and qualitative factors which indicate that a greater level of judgement is required in recognising revenue, including consideration of historical issues identified, variations and claims, delay risk, high potential impact and high likelihood of risk events and potential loss making contracts: <ul style="list-style-type: none"> <li>○ obtaining an understanding of the contract terms and conditions of relevant contracts to evaluate whether these were reflected in the Group’s estimate of forecast costs and revenue;</li> <li>○ testing a sample of costs incurred to date and agreeing these to supporting documentation;</li> <li>○ testing contractual entitlement relating to contract modifications, variations and claims recognised within contract revenue to supporting documentation and the underlying contracts;</li> <li>○ evaluating the probability of recovery of contract assets by reference to the status of contract negotiations, historical recoveries and other supporting documentation;</li> <li>○ assessing the level of cost contingencies on the LCS and EPF programs in USA Shipbuilding;</li> <li>○ evaluating the reasonableness of the future overhead rates used in the estimation of costs in USA Shipbuilding by comparing the overhead assumptions to actual historic overhead rates, and the estimate of future overheads based on future workload in the order book, and consideration of normal production capacity;</li> <li>○ evaluating significant exposures to liquidated damages for potential late delivery of vessels where relevant; and</li> <li>○ evaluating historical accuracy of forecasted costs to complete by comparing actual performance to forecasts.</li> </ul> </li> </ul> <p>We also assessed the adequacy of the relevant disclosures in the financial statements.</p>



<p><b>Towing, Salvage and Rescue Ship (T-ATS) onerous contract provision</b></p> <p>As disclosed in Note 19, an onerous contract provision of \$122.8 million has been recognised in relation to the T-ATS contract as at 30 June 2023.</p> <p>The quantification of the onerous contract provision requires significant judgement and estimation including, but not limited to the following matters:</p> <ul style="list-style-type: none"> <li>• identifying and quantifying the costs that relate to the T-ATS contract, including not only the direct costs of delivery, but also an allocation of other costs that relate directly to fulfilling the contract;</li> <li>• quantifying the non-recurring hours / costs associated with the first vessel in the T-ATS program;</li> <li>• estimating the assumed learning curve associated with the construction of subsequent vessels;</li> <li>• forecasting future labour and material costs / rates;</li> <li>• identifying and quantifying program risks and opportunities, including the probability of recovery of variable consideration;</li> <li>• assessing the probability of different program loss outcomes which then form the basis of the probability weighted onerous contract provision; and</li> <li>• estimating the appropriate discount rate used to calculate the present value of the cash flows.</li> </ul> <p>The principal reasons for the onerous contract provision being a key audit matter are the quantum of the onerous contract loss, combined with the fact that there is a significant level of judgement applied by the Group in selecting the methodology and arriving at the assumptions mentioned above.</p> <p>This, in turn, leads to a high degree of auditor judgement and effort in performing procedures and evaluating the Group's methodology, significant assumptions and estimates.</p>	<p>In addition to the procedures outlined above associated with Shipbuilding revenue, our incremental audit procedures performed in relation to the T-ATS onerous contract provision included but were not limited to:</p> <ul style="list-style-type: none"> <li>• evaluating the design and implementation of controls in respect of the calculation of the T-ATS onerous contract provision;</li> <li>• utilising our internal engineering specialists to assist in: <ul style="list-style-type: none"> <li>○ assessing the reasonableness of labour hours on selected vessels based on project-to-date productivity trends and comparison to historic data;</li> <li>○ assessing the reasonableness of forecast non-labour costs, and program risks and opportunities;</li> <li>○ assessing the reasonableness of the learning curve assumption, by comparing it to historic actual data across the LCS and EPF programs, and comparison against external market data.</li> </ul> </li> <li>• agreeing forecast hours per vessel to underlying program office data, including quantifying the non-recurring hours incurred on the first vessel;</li> <li>• assessing the appropriateness of costs included in the onerous contract provision, including direct costs, and an allocation of other costs that relate directly to fulfilling the contract;</li> <li>• evaluating the reasonableness of future overhead rates used in the onerous provision calculation by comparing the overhead assumptions to actual historic overhead rates, and the estimate of future overheads based on normal production capacity;</li> <li>• evaluating the probability of recovery of variable consideration based on review of supporting documentation and by reference to the underlying contracts;</li> <li>• evaluating external experts' scope of work and assessing the independence, competence and objectivity of experts used by management;</li> <li>• assessing the probabilities allocated to various forecast loss scenarios for reasonableness;</li> <li>• assessing the reasonableness of the discount rate applied, by comparison to external data; and</li> <li>• testing the model for mathematical accuracy.</li> </ul> <p>We also assessed the adequacy of the relevant disclosures in the financial statements.</p>
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<p><b>Carrying amount of non-current assets – Australasia Shipbuilding</b></p> <p>As at 30 June 2023, the carrying value of intangible assets and property, plant and equipment was \$1,001 million as disclosed in Notes 20 and 22.</p> <p>Long lived assets in relation to the Australasia Shipbuilding Cash Generating Unit (CGU) was \$98.5 million, which includes land &amp; buildings of \$33.6 million which are carried at fair value.</p> <p>The Group prepared a value in use model to assess the recoverable value of the CGU as a whole.</p> <p>This requires the Group to exercise significant judgement, with key assumptions including the level of uncontracted revenue included in the forecast, assumptions related to the value and timing of future contract wins and forecast operating margins.</p>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>• understanding the process that the Group undertakes to develop the value in use model;</li> <li>• assessing historical forecasting accuracy by comparing actual performance to budgets;</li> <li>• challenging the forecast revenue with consideration of:             <ul style="list-style-type: none"> <li>○ the value and timing of contracted work;</li> <li>○ the value, probability of win, and timing assigned to securing forecast uncontracted work; and</li> <li>○ external industry data, where available.</li> </ul> </li> <li>• in-conjunction with our valuation specialists independently calculating the discount rate;</li> <li>• evaluating the reasonableness of operating margins with reference to past performance and knowledge of the business;</li> <li>• testing the value in use models for mathematical accuracy; and</li> <li>• performing sensitivity analysis on the forecast revenue, operating margins, terminal growth assumptions and discount rate.</li> </ul> <p>We also assessed the adequacy of the disclosures in Notes 20, 22 and 23.</p>
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### Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group’s annual report for the year ended 30 June 2023 but does not include the financial report and our auditor’s report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

## *Auditor's Responsibilities for the Audit of the Financial Report*

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on the Remuneration Report


### *Opinion on the Remuneration Report*

We have audited the Remuneration Report included in pages 23 to 46 of the Directors' Report for the year ended 30 June 2023.

In our opinion, the Remuneration Report of Austal Limited, for the year ended 30 June 2023, complies with section 300A of the *Corporations Act 2001*.

### *Responsibilities*

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



DELOITTE TOUCHE TOHMATSU



David Newman

Partner  
Chartered Accountants

Perth, 31 August 2023

# Shareholder information

The following information was extracted from the Company's share register at 30 June 2023:

## Distribution of shares

Individual shareholding	Number of shares	% of Total issued capital	Number of holders
1 - 1000	1,928,158	0.53%	3,666
1,001 - 5,000	11,542,932	3.19%	5,161
5,001 - 10,000	11,538,455	3.18%	1,824
10,001 - 100,000	37,508,733	10.35%	1,863
100,001 and over	299,923,597	82.75%	105
Total	362,441,875	100.00%	12,619

## Twenty largest shareholders

Rank	Shareholder	Number of shares	% of Total issued capital
1	HSBC Custody Nominees (Australia) Limited	132,274,496	36.50%
2	Citicorp Nominees Pty Limited	41,755,834	11.52%
3	Austro Pty Ltd	32,761,692	9.04%
4	J P Morgan Nominees Australia Pty Limited	28,284,935	7.80%
5	National Nominees Pty Ltd	14,162,874	3.91%
6	BNP Paribas Nominees Pty Ltd	11,661,734	3.22%
7	Onyx (WA) Pty Ltd	5,600,000	1.55%
8	UBS Nominees Pty Ltd	3,108,029	0.86%
9	Pacific Custodians Pty Limited	2,486,808	0.69%
10	Ace Property Holdings Pty Ltd	2,460,000	0.68%
11	Mr Gary Heys & Mrs Dorothy Heys	2,044,670	0.56%
12	Mr Graham Wallace Ray	1,616,704	0.45%
13	Mossisberg Pty Ltd	1,518,100	0.42%
14	Mr Brenton Anthony Cook	1,031,000	0.28%
15	Mr William Robert Chambers	1,000,000	0.28%
16	Mr David Singleton	970,000	0.27%
17	Lavinia Shipping Limited	841,061	0.23%
18	Warbont Nominees Pty Ltd	827,144	0.23%
19	Kenny Nominees (NT) Pty Ltd	777,881	0.22%
20	Sandhurst Trustees Ltd	560,142	0.16%
	Total	285,743,104	78.84%

## Substantial shareholders

Rank	Shareholder	Number of shares	% of Total issued capital
1	Tattarang Ventures Pty Ltd	71,073,651	19.61%
2	Austro Pty Ltd	32,761,692	9.04%
	Total	103,835,343	28.65%

## Voting rights

All ordinary shares issued by Austal Limited carry one vote per share without restriction.



# Corporate governance statement and ESG report

The Company has elected to post its Corporate Governance Statement on its website in accordance with ASX Listing Rule 4.10.3 along with its Environmental, Social and Governance Report (ESG Report).

The Corporate Governance Statement and ESG Report can be found at the following URL:

<http://www.austal.com/corporategovernance>

## Corporate directory

### Directors

#### Non-Executive Directors

Mr John Rothwell  
Mrs Sarah Adam-Gedge  
Mr Chris Indermaur  
Mr Mick McCormack  
Mr Lee Goddard

#### Executive Directors

Mr Paddy Gregg

### Auditor

Deloitte Touche Tohmatsu  
Brookfield Place, Tower 2  
123 St Georges Terrace  
Perth 6000  
Australia

### Company Secretary

Mr Adrian Strang

### Registered office

100 Clarence Beach Road  
Henderson 6166  
Australia  
Telephone: +61 8 9410 1111

### Share registry

Link Market Services Limited  
QV1 Building, Level 12  
250 St Georges Terrace  
Perth 6000  
Australia  
Telephone: +61 1300 554 474

### ABN

73 009 250 266

Email: [info@austal.com](mailto:info@austal.com)

Tel: +61 8 9410 1111

**AUSTAL.COM**

