



Austal Limited Annual Report

2021



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Company Overview

In what has been a challenging year for the shipbuilding industry, let alone the world's population, Austal has successfully kept our teams safe, maintained business operations and delivered on our commitments to employees, customers, suppliers, stakeholders and shareholders.

FY2021 will go down as a milestone year for Austal, not only for rising to meet the challenges of the COVID-19 pandemic, but for a number of significant achievements across the business and around the world, that position the company for further growth.

The Austal Group safely and efficiently delivered a record 19 vessels worldwide in FY2021.

This included 7 naval vessels and 2 commercial ferries from Australia, 3 naval vessels from Austal USA, 2 commercial ferries from Vietnam, the largest-ever commercial ferry (by volume) constructed by the Austal Group from the Philippines and 4 commercial ferries from Aulong in China.

The company continued to expand both steel shipbuilding capability and sustainment services in the United States and Australia which further strengthens Austal's capacity to design, construct and support steel naval vessels for home and export markets.

New steel shipbuilding facilities are under construction in Mobile, Alabama which enable steel vessel construction to commence from April 2022.

New sustainment facilities acquired in both Mobile and Cairns in Queensland, Australia will allow Austal to offer an enhanced vessel sustainment service to key customers including the United States Navy, Royal Australian Navy and Australian Border Force.

New and emerging maritime technologies continue to be a focus for our Austal teams and supply chain partners around the world.

In FY2021, a number of exciting new product developments were announced, including the VOLTA series of electric ferries that offer commercial operators an attractive, cost-effective zero-emission transportation solution; and new autonomous vessel technology that is being applied to the latest Expeditionary Fast Transport ship (EPF-13), under construction for the United States Navy.

Based on the company's ongoing success in shipbuilding, technology and sustainment, and in response to converging trends that are impacting the global shipbuilding industry, in 2021 Austal developed and has implemented Growth Strategy 2050.

The strategy confidently states Austal's intent to become the Indo-Pacific region's leading naval defence prime contractor and outlines the priorities for the business over the coming three decades; expand shipbuilding, enhance systems and extend support.

With communities, cities, states and nations around the world moving quickly to establish a "new normal" way of life under COVID-19, Austal is ready to deliver innovative, cost effective solutions that will help defence and commercial vessel operators continue to help protect and transport people, every day.

2021 Highlights



\$1.57B
Revenue



\$2.5B
Order Book



29
Ships scheduled or
under construction



19
Ships
delivered



35
Vessels under
sustainment



8 Service Centres



5,500
Employees

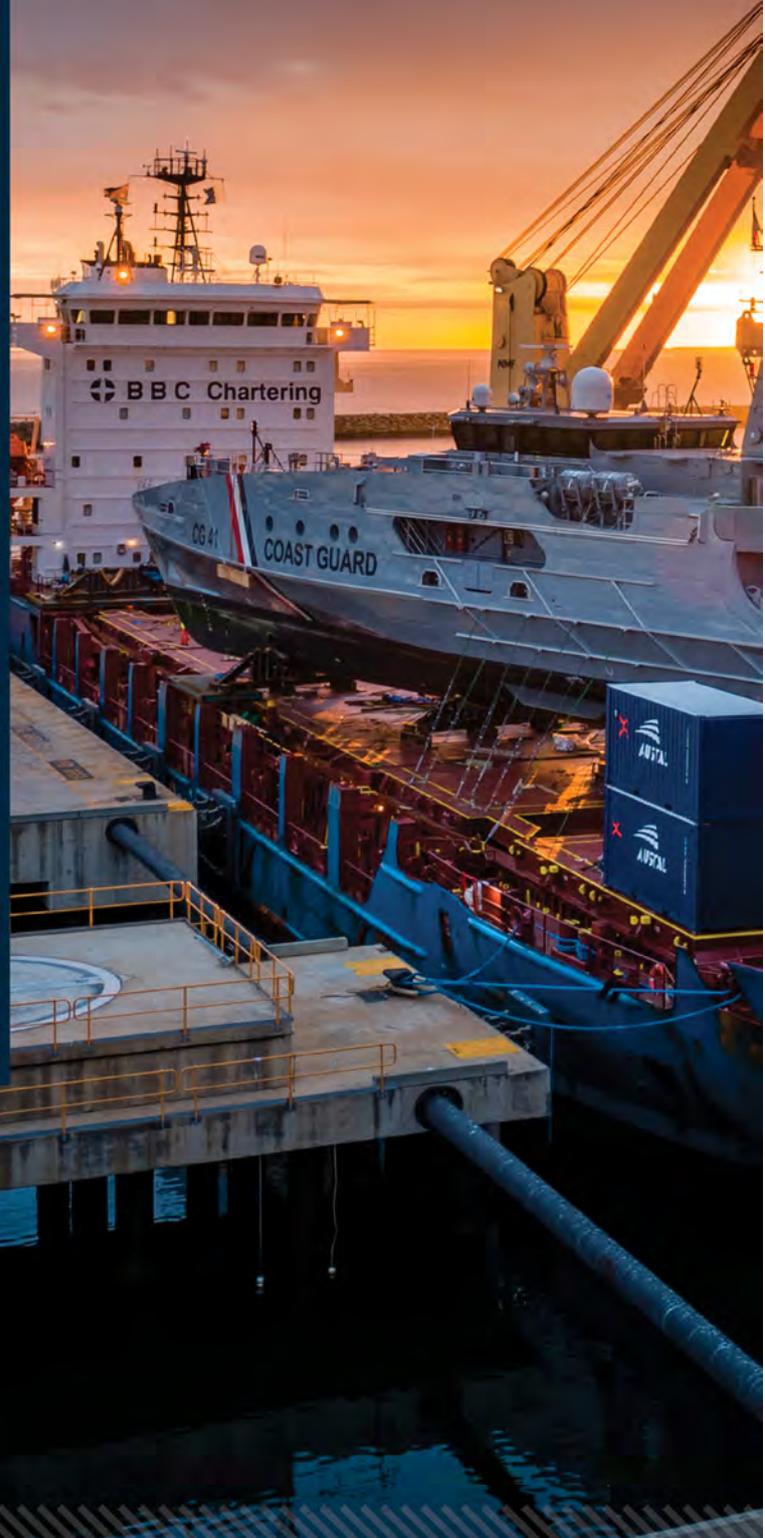


Austal Australia delivering Sovereign Capability

In FY2021, Austal Australia continued to develop Australia's sovereign naval shipbuilding capability through the delivery of two Cape-class Patrol Boats for the Trinidad and Tobago Coast Guard and ongoing construction of six Cape-class Patrol Boats for the Royal Australian Navy.

TTS Port of Spain (CG41) and TTS Scarborough (CG42) – Austal Hulls 398 and 399 – departed Australia in June 2021, just over 2 years since the start of construction in Henderson, Western Australia in April 2019.

The successful, A\$126 million defence export contract highlights the successful collaboration between Austal, local defence industry and the Australian Government, including the Department of Defence, Department of Foreign Affairs and Trade and Export Finance Australia.





Guardians – Pride of the Pacific

The Australian Government's Pacific Patrol Boat Replacement Project (SEA3036-1) continues on schedule, with five Guardian-class Patrol Boats delivered in FY2021 bringing the total vessels delivered in the project since 2018 to eleven.

The success of the project to date and the ongoing collaboration between Austal Australia and the Department of Defence's Capability Acquisition and Sustainment Group (CASG)

Project Team, have earned industry-wide accolades, including recognition as a finalist in the Essington Lewis Awards 2021 (Defence Acquisition Projects > A\$50 million).

The project is achieving Australian Industry Capability (AIC) content of over 68% and with a new Guardian being launched approximately every 3 months, is on track for completion in CY2023.





VOEA Ngahau Siliva for Tongan Maritime Force



Sustainment reaching new heights

In December 2020 Austal Australia completed the acquisition of BSE Maritime Solutions, including additional shipbuilding, sustainment and service facilities, infrastructure and capabilities in Cairns and Brisbane, Queensland.

The new Austal Queensland shipyards now offer the Pacific region's largest mobile boat

hoist, capable of lifting vessels up to 1,120 tonnes.

The growing team of more than 100 personnel provide support to both the Australian Border Force's and Royal Australian Navy's Cape-class Patrol Boats, as well as the Guardian-class Patrol Boats being delivered to 12 Pacific Island nations and Timor Leste through to CY2023.





Austal Cairns team with Mobile Boat Hoist

Austal USA



In another milestone year for Austal USA, the shipyard delivered two Independence-class Littoral Combat Ships – the USS Mobile (LCS 26) and USS Savannah (LCS 28) - and one Spearhead-class Expeditionary Fast Transport, USNS Newport (EPF 12) to the United State Navy; while also taking significant first steps towards constructing steel naval vessels and offering enhanced vessel support services in Mobile, Alabama.

Construction of new steel shipbuilding facilities (from a combined US\$100 million investment by Austal USA and the US Government) commenced in March 2021 and is expected to be completed by April 2022.

In addition to a new undefinitised contract for the detailed design of the 15th Expeditionary Fast Transport vessel in February 2021, Austal USA has been awarded a swathe of design contracts that further strengthens the shipyard's position to pursue autonomous and steel vessel contracts with the US Navy, including; a Contract Modification to Develop Autonomous Capability in EPF-13, a Functional Design Contract for the steel hull Navajo-class Towing, Salvage and Rescue Ship (T-ATS) and a Concept Studies and Preliminary Design Contract for the Development of the US Navy's new Light Amphibious Warship (LAW) Program.



Start of construction of new steel shipbuilding facility in Mobile



USNS Newport (EPF 12)

USS Mobile (LCS 26)

Austal Philippines

*Bañaderos Express for
Fred. Olsen Express*

Austal Philippines has had a momentous year, constructing the shipyard's largest commercial ferries, three times. Firstly through the delivery of the 109 metre catamaran FSTR for Fjord Line; followed by the launch of the 118 metre trimaran Bañaderos Express for Fred. Olsen Express - the largest trimaran ferry ever constructed in the Philippines, and now the 115 metre catamaran Express 5 for Molslinjen, the largest ferry (by volume) constructed by any Austal shipyard. Three record-breaking ships constructed under a challenging but still very safe and supportive environment that is developing the Philippines sovereign shipbuilding capability.



FSTR for Fjord Line

Austal Vietnam

Building upon the successful establishment of a brand new shipyard, Austal Vietnam delivered 2 high speed commercial ferries to the market within the FY2021 financial year. Firstly, the sleek APT James, a 94 metre catamaran for the Government of Trinidad and Tobago and then the 41 metre Maria Galanta Express, to Oceanoi Limited of Mauritius.



Maria Galanta Express for Oceanoi Limited of Mauritius



*APT James for the Government
of Trinidad and Tobago*

Beyond Electric

VOLTA



Austal Australia released the new VOLTA series of electric-powered ferries in FY2021, heralding an environmentally friendly and efficient alternative to traditional maritime public transport.

Austal's VOLTA series goes beyond electric power plant options to provide a complete turnkey solution that includes new optimised hull designs and superstructure configurations, fully integrated shored-based charging infrastructure and vessel monitoring and control systems such as MARINELINK-Smart that offer a cost effective operation and a unique customer experience.



Support

Austal's support business, comprising vessel sustainment, in-service support (ISS), integrated logistics support, repairs and maintenance for both commercial and defence markets continues to grow, with additional facilities, infrastructure and people joining the company's established network in FY2021.

Austal USA continued to win new service contracts with the US Navy to support both the Littoral

Combat Ship and Expeditionary Fast Transport fleets in the US and internationally.

In August 2020, Austal USA purchased an additional 15 acres of waterfront land and shipbuilding and maintenance facilities, including a dry dock capable of launching and servicing large steel vessels opposite and adjacent to the existing shipyard.



Austal USA Shipyard



USA




\$164m

Revenue support contracts FY2021

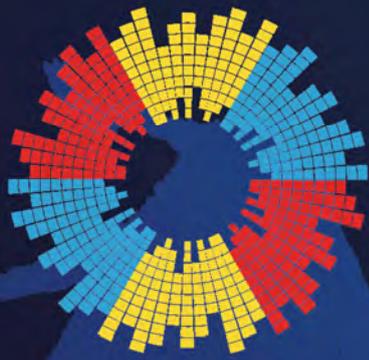


AUSTRALASIA




\$94m

Revenue support contracts FY2021



GROWTH STRATEGY 2050

Strategic Context

A number of converging macro trends are impacting the shipbuilding industry:



REGIONAL

Increasing importance of the Indo-Pacific region as a nexus of naval operations and demand for commercial maritime transport.



TECHNOLOGY

Arrival of autonomous vessels and increasing automation of manufacturing process to build vessels.



ENVIRONMENTAL

International regulatory, economic and societal pressure to decarbonise all maritime transport by 2050.



LOCALISATION

Worldwide trend towards building and sustaining vessels locally to foster employment and supply chain resilience.

Our Strategic intent is to be the Indo-Pacific Region's Leading Naval Defence Prime Contractor

Strategic Priorities



EXPAND SHIPBUILDING

EXPAND our shipbuilding capabilities to be a world leading designer and builder, in both steel and aluminium, of large, complex naval and commercial vessels, including autonomous naval ships and zero emission fast ferries.



ENHANCE SYSTEMS

ENHANCE our systems and digital products to become Australia's sovereign supplier of naval vessel systems, the global leader in fleet life cycle management solutions for complex assets and a regional champion of Industry 4.0 in shipbuilding.

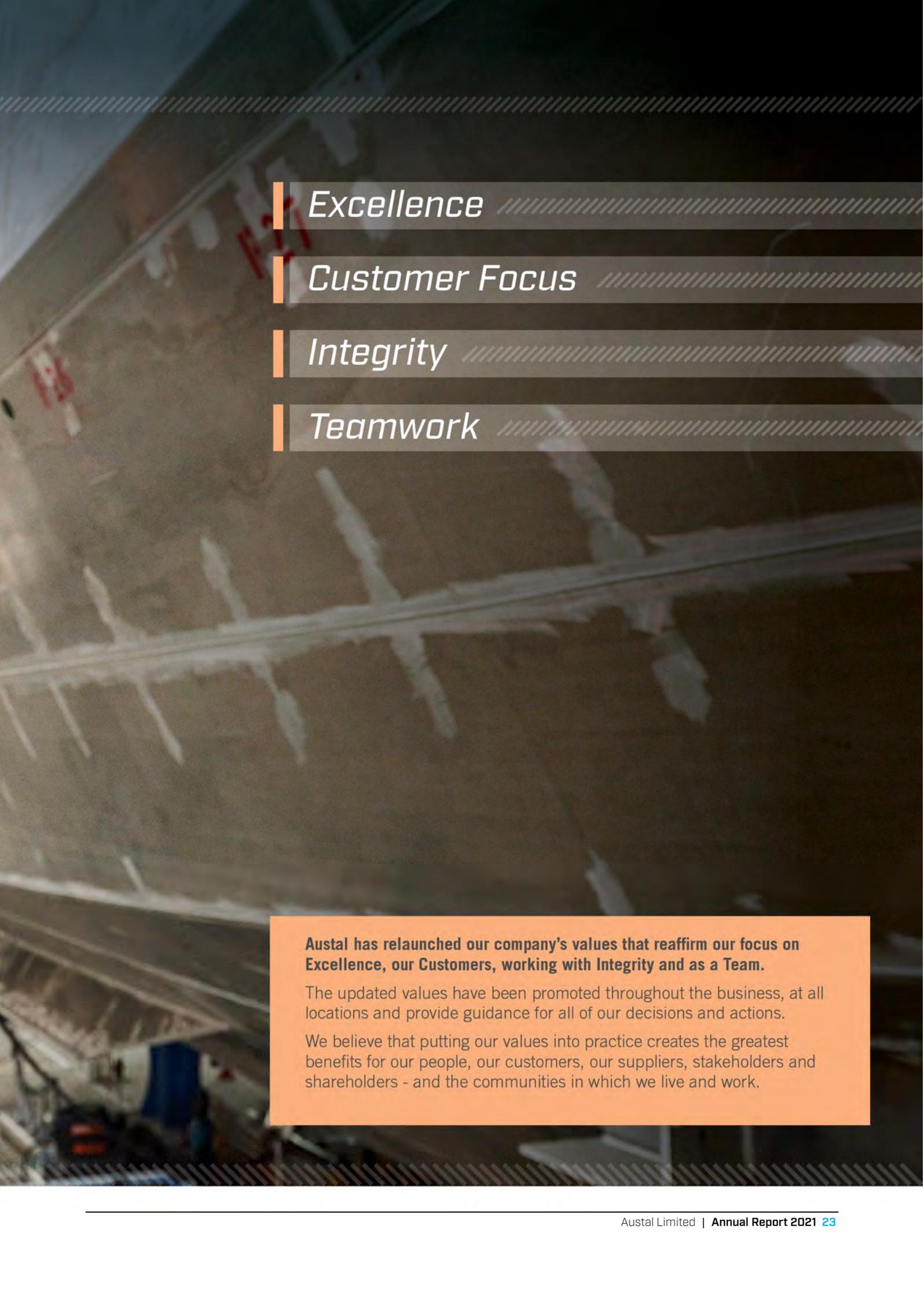


EXTEND SUPPORT

EXTEND our support and sustainment services to become the leading Indo-Pacific regional supplier to the US Navy, the Australian Commonwealth across all Defence domains and regional navies wherever Austral has a shipyard presence.

Our people, our values





Excellence

Customer Focus

Integrity

Teamwork

Austal has relaunched our company's values that reaffirm our focus on Excellence, our Customers, working with Integrity and as a Team.

The updated values have been promoted throughout the business, at all locations and provide guidance for all of our decisions and actions.

We believe that putting our values into practice creates the greatest benefits for our people, our customers, our suppliers, stakeholders and shareholders - and the communities in which we live and work.

Chairman's report



Financial Year Highlights

- Continued strong earnings amid unprecedented global economic volatility and the transition from LCS to future programmes.
- Ongoing strong contribution and enhanced margins from the LCS and EPF programs in the USA.
- Healthy \$2.5 billion order book with upside as Austal pursues autonomous vessel opportunities and invests in steel shipbuilding capability in USA.
- While challenges presented by COVID-19 have impacted volume and timing of work (in line with guidance) all operations remained open while adhering to local restrictions.

I am pleased to present the FY2021 Annual Report to shareholders on behalf of the Board of Austal Limited.

Despite significant global disruption and economic uncertainty due to the COVID-19 pandemic, Austal delivered another year of strong earnings, a result founded on excellent operational capability. This result is testament to Austal's ability to adapt its operations in an increasingly volatile global environment, whilst maintaining efficiency and consistency across our shipbuilding programs and support services.

It reflects the hard work in each of our shipyards - the USA, Australia, Philippines, and Vietnam - all of which remained fully operational throughout the year, as the COVID-19 pandemic persisted. Austal has always maintained a strong customer relationship focus, and most of our customers have worked constructively with us to pragmatically progress construction programmes and delivery of vessels. The COVID-19 situation continues to be dynamic. We have witnessed its impact on our operations through a slowdown of ferry orders and reduced support revenue in the USA. Importantly, Austal continues to implement a range of health and wellbeing measures to protect our 5,500 strong workforce and will continue to monitor and adapt

this as we seek to minimise the potential impacts from the virus.

Strategic initiatives

Austal refreshed the company's long term corporate strategy this year incorporating it into the Company's 2050 vision. Our focus remains on long term sustainable, 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.

The pivot to steel, which has already been made in Australia, was substantially progressed in FY2021 with significant steel investment at our USA operations. Steel capability positions the business to bid for a much greater proportion of ship construction work available than an aluminium-only yard can tender for and is crucial to rebuilding our order book and future workload to return revenue and earnings to the levels previously achieved.

Our robust balance sheet and associated strong cash position continues to provide the financial flexibility to pursue inorganic growth through mergers and acquisitions. The acquisition of BSE Maritime in Queensland, Australia and the acquisition of the MARRS shipyard assets in Mobile, Alabama were successfully completed this year, with future target identified.

Risks & opportunities

COVID-19 continues to create uncertainty for the Austal business. Whilst operationally we are managing the response well, our results have been negatively impacted by delays in contracted work, delays in the delivery of materials, and an inability to move our own people and specialist original equipment manufacturer technicians freely.

The reduction in revenue from FY2020 to FY2021 was also due in part to the wind down of the LCS program in the USA.

Austal is very focussed on winning new work for our Mobile, Alabama, yard post the delivery of the last LCS in FY2025, and the addition of steel capability will assist greatly.

I am also encouraged by the broader opportunity I see for the future.

We know 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, which we introduced to market this year.

The pivot to steel in tandem with the expansion of our support business will leave us better placed than ever to continue Austal's growth.

KMP & Board changes

Paddy Gregg took over as CEO on 1 January 2021 following the well-planned transition from previous CEO David Singleton. I would like to thank David for his contribution over almost five years as CEO and four years as a Non-Executive Director at Austal.

Paddy has taken over at a challenging time, facing challenges such as COVID-19 and its impact on the employees and the company's financial performance; several legacy regulatory investigations; management changes and of course the pivot in the business as the LCS programme draws to an end in FY2025.

Paddy has led the revitalisation of our corporate strategy, while closely managing the Company's operations alongside new Chief Operating Officer Ian McMillan. The roll-out of the strategy and an improved focus on customer relationships means that we have clear objectives. I am optimistic about the future and increased potential for growth, albeit with some challenging years as part of a business transition.

We have also had a change of President in our USA business. Austal's USA CFO Rusty Murdaugh was appointed as Interim President in February 2021 while the Board completes a global search for a permanent President.

The Board is improving internal compliance and reporting practices between the USA operations and Austal's corporate headquarters, and Paddy and Rusty have worked hard to implement this in the past six months.

Austal also benefited from the contribution of our new Board member in Australia, Mick McCormack, who brings a wealth of experience from his time as CEO of the APA Group.

ESG

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

Following the release of our inaugural 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, which will adopt the Global Reporting Initiative (GRI) standards for the first

time, will be published prior to the 2021 Annual General Meeting.

For example, Austal continues research and development projects targeting ways 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. Further details on our challenges, achievements and initiatives will be contained in our 2021 ESG report which I encourage you to read.

HSEQ

As always, our prime focus is on 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 in Mobile achieve an award for safety performance.

Corporate investigations

As we have previously announced to the ASX we are working with the US Department of Justice, US Securities and Exchange Commission and the Australian Securities and Investment Commission on alleged breaches of regulatory standards. Their investigations relate to activities in years leading up to and including FY2016 and I look forward to its conclusion and being able to devote our entire focus on delivering our strategy for the benefit of 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, and significant leadership changes. Austal's continued strong earnings in FY2021 are testament to their commitment during the year. I would like to acknowledge the Austal executive team and support managers for their leadership in guiding the Company through an unprecedented period. I also want to express my appreciation to Austal's loyal shareholders.



John Rothwell AO
Chairman

Chief Executive Officer's report



Group financial results

	2021 '000	2020 '000
Revenue	\$ 1,572,175	\$ 2,086,001
EBITDA ¹	\$ 160,326	\$ 176,139
EBIT ²	\$ 114,619	\$ 130,396
NPAT ³	\$ 81,057	\$ 88,978
EBITDA margin	10.2%	8.4%
EBIT margin	7.3%	6.3%
Net assets	\$ 774,038	\$ 748,743
Net cash position ⁴	\$ 231,900	\$ 272,412
Net cash flow	\$ (49,768)	\$ 121,002
Earnings per share (\$ per share)	\$ 0.226	\$ 0.250
Dividends per share (\$ per share)	0.080	0.080
Payout ratio	35.5%	32.0%

1. Earnings before interest, tax, depreciation and amortisation (EBITDA).

2. Earnings before interest and tax (EBIT).

3. Net Profit / (loss) after tax (NPAT)

4. Excludes CCPB 9 & 10 notional lease debt

EBIT and EBITDA are non-AASB 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 decreased by (24.6)% to \$1,572.175 million in FY2021.
- FY2021 earnings before interest and tax (EBIT) decreased by (12.1)% to \$114.619 million compared to \$130.396 million in FY2020.

- Austal reported a net profit after tax (NPAT) of \$81.057 million in FY2021 compared to \$88.978 million in FY2020.
- Austal delivered operating cash flow of \$107.327 million (FY2020 \$164.472 million), and FY2021 net cash flow of \$(49.768) million (FY2020 \$121.002 million).
- Austal has maintained a strong cash balance of \$346.899 million at 30 June 2021 demonstrating the ongoing cash generating strength of the business (30 June 2020: \$396.667 million).
- Net cash (excluding the accounting treatment of the notional CCPB 9 & 10 leasing program) was \$231.900 million at 30 June 2021 (30 June 2020: \$272.412 million).
- A final FY2021 unfranked dividend of 4.0 cents per share was declared, adding to the 4.0 cents a share paid in April 2021, representing a 35.5% payout ratio (FY2020: 8.0 cents per share, unfranked).
- Austal received \$202.150 million of new contract awards during FY2021 to bring the order book to \$2.5 billion at 30 June 2021.

Austal's Net Profit After Tax (NPAT) was \$81.057 million in FY2021, (8.9%) lower than the prior corresponding period (pcp), and Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) of \$160.326 million, down (9.0)% on the pcp. However, these were the second-best earnings and profit results in the Company's history, and the fourth year in a row that the Company's EBITDA exceeded the \$100 million. These strong results enabled the Board to declare a final dividend of 4.0 cents per share, with a total of 8.0 cents per share (unfranked) for FY2021.

Austal delivered a record number of ships in FY2021 and maintained a strong balance sheet, as we strengthened our strategic position to unlock significant long term opportunities in the shipbuilding industry and broader defence sector.

We provided initial guidance to shareholders in October 2020 and an update in June 2021 that there would be a decline in revenue and profit in FY2021.

Despite the strong overall performance, there was a decline in revenue both from FY2020 to FY2021.

This decline was driven by a reduction in LCS shipbuilding throughput, less favourable foreign

exchange translation, COVID-19 impacts and reduced Support activities in the USA.

Some of these are one-offs, others are caused by general market fluctuations, and others are more structural because Austal is in a transition period where new orders are required for the Company's US shipyard to replace the LCS program wind-down.

Pleasingly, the USA EBIT margin improved, predominantly due to mitigation of risk and construction efficiency, which helped to offset the year on year decline in revenue.

Importantly, we have translated the Company's earnings into strong cash flow.

Previous investments made in our shipyards to increase throughput has resulted in a record year of ship deliveries.

We delivered 19 ships to commercial and defence customers around the world in FY2021; more than ever before in Austal's 33 years of shipbuilding.

In Australia, we delivered 7 defence vessels, including 2 Cape Class Patrol Boats exported to Trinidad and Tobago and 5 Guardian Class Patrol Boats for the Commonwealth of Australia's Pacific Patrol Boat Replacement Project. We also delivered 2 high speed trimaran ferries, for customers in the Canary Islands and Japan.

Austal USA continued its success in delivering the US Navy's Independence-class Littoral Combat Ship (LCS) and Spearhead-class Expeditionary Fast Transport programs (EPF), with 3 vessels delivered in 12 months.

Austal Philippines delivered the largest commercial ferry ever constructed in the Philippines, and indeed the largest commercial ferry (by volume) ever delivered by the Austal Group, at any shipyard.

Austal Vietnam delivered its first 2 commercial ferries since the shipyard opened in late 2018, and Austal's joint venture in China, Aulong, delivered 4 ferries during the year.

People & Safety

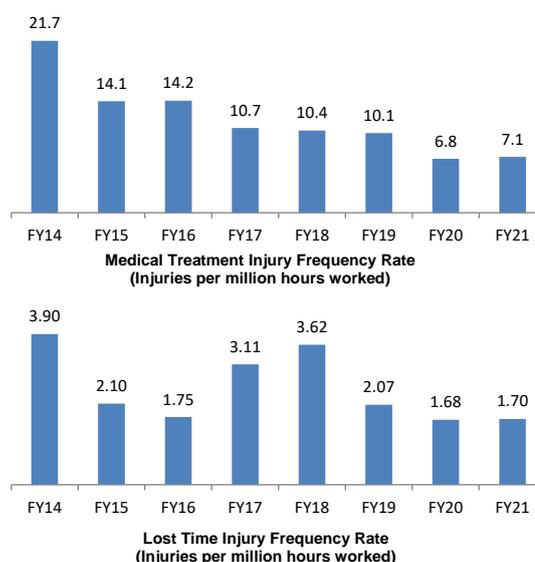
The COVID-19 pandemic remains one of the biggest global health challenges in modern history and was a major focus in FY2021. Austal has placed a strong emphasis on supporting the health and wellbeing of our colleagues, with comprehensive sanitisation, isolation when necessary and support of vaccination programmes at worksites.

Austal's proactive implementation of these initiatives, in conjunction with other preventative measures, has helped to mitigate the risk of a

large-scale virus outbreak among our employees. We have seamlessly integrated these significant measures into our existing Health, Safety, Environment & Quality (HSEQ) Integrated Management System

We made positive progress on our overarching 'Zero Harm' objective during FY2021 with Austal USA receiving an Excellence in Safety award for its strong commitment to safety in the workplace from American Equity Underwriters (AEU) in May 2021. This is the sixth AEU award the company has received, and the 20th industry safety award earned overall, making Austal USA one of the safest shipyards in the USA.

Disappointingly, the 12 month rolling Medically Treated Injury Frequency Rate (MTIFR) and our Lost Time Injury Frequency Rate (LTIFR) increased slightly compared to the prior corresponding period. This motivates us to continually enhance our HSEQ policies and practices and drive for improvement in Group Safety performance indicators, and it underpins the growth of our business in a sustainable way; benefiting our employees, shareholders, and the broader community in which we operate.



Further details on Health, Safety and Environmental initiatives at Austal can be found in Austal's new and improved Environmental, Social and Governance (ESG) Report when it is published in October.

USA

Strategy

Austral USA remains the core driver of Austral's financial performance, constituting approximately three-quarters of the Company's revenue in FY2021 as it continued the efficient delivery of high-quality aluminium vessels to the US Navy, delivering one Expeditionary Fast Transport and two Littoral Combat Ships during the year.

USA experienced the start of a reduction in revenue from the LCS shipbuilding programme in FY2021, which will conclude in FY2025. Although LCS will continue to be manufactured through to FY2025, there was a reduction in long lead materials orders in FY2021 which impacted revenue in that segment.

The business has enjoyed the revenue consistency of multi vessel LCS and EPF programmes and the pivot to steel will enable us to bid for more programmes and from a wider customer base, for example the Offshore Patrol Cutter Programme for the US Coast Guard for which Austral submitted a tender during FY2021. During this transition we are focused on keeping the business financially healthy, operationally efficient, and ready for the future.

Steel

Austral is on track to be able to commence a new steel vessel programme by May 2022, largely as a result of the combined US\$100 million investment Austral and the US Government are making at our Mobile facilities. Steel represents a significant strategic step to augment our current aluminium based operations to significantly broaden the opportunity horizon for the Company. This is at a time when several new, major steel shipbuilding programs in Austral's size range are expected to come up for tender. Austral is primed to capitalise on these growth opportunities as we continue to develop new vessels, including EPF variants and unmanned ships.

The award of a functional design contract to prepare for construction of the new Navajo-class Towing, Salvage and Rescue Ship (T-ATS) for the United States Navy is significant. The T-ATS programme will give Austral the ability to demonstrate its steel capability on a vessel that is already in service and less complex than those Austral hopes to win in the future, which is a perfect risk reduction programme. This directed design contract award is a strong indication that Austral is part of the US shipbuilding industrial base and has a long future in the US.

Support

Our support business was affected by two key changes:

1. The reduced volume of support work taking place due to COVID-19 impacts.
2. The cancellation of post shakedown availability dockings in the first year post delivery due to the high quality of Austral manufactured vessels – we became victims of our own success.

Revenue decreased from \$293.017 million in FY2020 to \$163.621 million as a result of these changes.

We are anticipating a resurgence in our support business over the coming years as an increasing number of Austral-designed and built vessels are commissioned and deployed by the US Navy. Importantly they are being home-ported in San Diego. We are pursuing our strategy to invest in facilities and a floating dock in San Diego to meet this expected demand growth.

The increased footprint in San Diego is part of the growth of Austral's broader support presence globally, and the recent admission to the Sustainment Execution Contract panel on the West Coast in USA further enhances this. The land and dock purchase, now referred to as Austral West Campus, across the Mobile river from Austral's manufacturing facility also increases the Company's sustainment footprint and capability.

When combined, these strategic investments will 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

We wait to see what the arrival of the Biden Administration means for longer term defence expenditure in the US Defense and Naval shipbuilding sector. We are fortunate to already have line of sight to significant near term shipbuilding programmes that best suit Austral's capability and capacity that could replace the LCS revenue. These include the Offshore Patrol Cutter for the US Coast Guard, the Light Amphibious Warship, and longer term projects such as the Next Generation Logistics Ship.

Looking ahead, Austral has entered FY2022 with a \$2.5 billion order book, with contracted orders for the US Navy extending through to FY2025.

The US\$44 million contract award to make Austral's EPF 13 an autonomous capable vessel is

strategically important for Austal. A successful 104 metre autonomous vessel will likely prompt a reconsideration of the need for large, unmanned surface vessels, and potentially provide a long life for the EPF programme. We have also developed other design variants of the EPF that could undertake humanitarian missions or act as hospital vessels.

Our investment in steel capability combined with our history of high performance in aluminium – as evidenced by the list of on-schedule deliveries this year – means we remain well placed for a long and successful future in Mobile.

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. This is a model we will look to replicate with the Philippines Navy OPV, and subsequent implementation for our Vietnam operation.

Our near term focus for Vietnam is to secure an immediate order to preserve business capability. The operation we established there has proven very successful and efficient, and this will be the focus of our commercial ferry building.

Our Australian operations will continue to support Navy and Border Force on the new build and sustainment of vessels. There is an exciting pipeline of work detailed in the Force Structure Plan that we are currently bidding for now. If successful, it is likely we will invest in our facilities in Henderson to support this programme of work. We will agree these infrastructure investment plans with the Commonwealth. Austal has an ambition to be a Sovereign Defence Prime Contractor in Australia, and we continue to assess merger and acquisition opportunities in the sector.

The significant growth in the size of the Australasia business over the last 5 years has meant we needed to invest in the appropriate Information Technology systems to monitor and control our operations in multiple countries. We are well underway with a transformation project, which includes implementation of a new Enterprise Resource Planning (ERP), Product Lifecycle Management (PLM) and 3 Dimensional Computer Aided Design (CAD)

tools. As part of this, we will achieve ISO 270001 and Defence Industry Certification Program (DISP) cyber security accreditations for Austal IT systems.

Both Austal USA and Australasia have a clear direction and 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 acquisition of BSE Maritime in Queensland, Australia, demonstrated our intent to grow sustainment revenue and profitability across the Australasia business. Many of the newly built Cape Class Patrol Boats will be home ported there, and we decided that it would be best completed in our own facility, with our own team given the volume of anticipated work. The integration has been smooth and the opportunities the teams are presenting and pursuing is encouraging.

As Australia's Force Structure Plan increases the size of the Navy fleet, there will be more vessel sustainment activities being undertaken in Perth, Darwin and Cairns, where we are already established. Austal's investment plans therefore are targeted at both new build opportunities and more sustainment business in locations where we are already well established.

Outlook

Austal anticipates that the commercial ferry market will be tough for the next few years.

This is likely to impact our Vietnam operation first, however there are still some opportunities that are likely to materialise such as the Company's recent announcement of a €20.5 million (approximately \$32.8 million) contract to design and build a 66 metre high-speed catamaran ferry for The Degage Group of French Polynesia.

The team in Vietnam has built two high quality vessels and it is important that we win work to maintain this capability for when the commercial market recovers. At a macro level, the fast aluminium ferry fleet is ageing and global emissions regulations are tightening. That will ultimately lead to increased ferry construction requirements.

The Offshore Patrol Vessel program in the Philippines, where negotiations are continuing, is a good opportunity and example of substantial growth opportunity which could potentially be replicated with other foreign navies. COVID-19

has slowed the commercial negotiation process; however, dialogue remains constructive and positive and the support from the Commonwealth advantageous.

The Australian Government's Force Structure Plan provides Austal with the ability to focus on a visible pipeline of tenders that match our capabilities in Australian shipbuilding. This plan will allow us to invest in the people, systems, and facilities to ensure we are well equipped to deliver to our customers. COVID-19 has brought many challenges, and closed borders have created a skills shortage in WA. However, the Guardian Class Patrol Boat programme has not missed a beat and those vessels have rolled off the production line exactly on schedule.

Not only is the future defence shipbuilding programme looking healthy, but with new ships come opportunities on new sustainment contracts.

Research & Development (R&D)

Austal continues to invest in R&D, both in the USA and Australia. Two significant areas of focus for us in the R&D space are emissions efficiency and autonomy. This will be very important in the future of commercial vessels in particular with global focus on greener fuels and technology.

In the defence sector the ability to remove people from harm's way is becoming increasingly achievable and desirable. Considerable work has been undertaken in the land and air sector, and now marine is turning its focus to this technology in the USA, and more recently Australia.

Austal R&D is focused on harnessing technologies that differentiate Austal in creating value for customers.

In particular, a focus on improving vessel performance, availability and reliability during operation will enable extended periods of vessel operations at sea in an uncrewed (autonomous) state.

Propelling vessels with low, or where possible zero, carbon emissions is becoming increasingly important and the announcement of the Volta electric vessel design in December 2020 will satisfy our customers' requirements into the future.

Additionally, the commercialisation of the new MARINELINK family of advanced vessel control & monitoring systems (including Marine Link Smart & new Ride Control) is proving very attractive to operators who want to maximise efficiency in the fleet.

Austal continues to invest in its technological capabilities to enhance our products and our processes, especially in the support area. This will provide us with substantial competitive advantages in the future and our sophisticated maintenance planning system that directly interacts with the ship is currently on trial on CCPB 9 & 10 with the Royal Australian Navy.

China

Austal advised investors during FY2021 that it has commenced discussions with Guangdong Jianglong Shipbuilding Company of Zhuhai, China, to sell Austal's 40% shareholding in the Aulong Shipbuilding Co Ltd. A letter of intent has been executed by the parties targeting completion of the negotiations by 31 October 2021. Aulong was established in June 2016 with the aim of pursuing commercial passenger and non-military vessel opportunities in mainland China. It has not grown in the way we believed that it would when the joint venture was established and so Austal has decided to exit the business.

Conclusion

Austal is in a period of transition as we move to unlock new, value-accretive opportunities.

Crucially, we continue to consistently generate strong earnings, underpinned by a robust balance sheet, during this transition period.

The strategic steps that Austal is undertaking in steel shipbuilding, support, and technology development places the business incredibly well for long term sustainable growth.



Paddy Gregg

Managing Director and Chief Executive Officer

Review of operations

USA

Financial performance

	2021 \$'000	2020 \$'000
Revenue		
Shipbuilding	\$ 1,012,983	\$ 1,310,747
Support	163,621	293,017
Total	<u>\$ 1,176,604</u>	<u>\$ 1,603,764</u>
EBIT		
Shipbuilding	\$ 105,396	\$ 106,802
Support	26,257	16,868
Total	<u>\$ 131,653</u>	<u>\$ 123,670</u>
EBIT Margin		
Shipbuilding	10.4%	8.1%
Support	16.0%	5.8%
Total	<u>11.2%</u>	<u>7.7%</u>

USA revenue was \$1,176.604 million in FY2021 compared to \$1,603.764 million in FY2020.

EBIT increased by \$7.983 million (6.5%) on FY2020 to \$131.653 million representing further year on year improvement in profitability.

Revenue reduced but earnings increased in FY2021 principally due to reducing purchases of materials and reduced labour hours as the LCS program starts to wind back, but offset by maturity of the LCS and EPF programs, delivering greater efficiencies and retirement of risk.

This was reflected in an EBIT margin of 11.2% in FY2021, compared to 7.7% in FY2020.

Shipbuilding

Shipbuilding revenue declined by (22.7)% from FY2020 to FY2021 as Austal started to experience the effects of the wind down of the LCS program in FY2025 with reduced purchases of materials and reduced labour hours that had previously added to shipbuilding revenue.

Pleasingly shipbuilding margin improved year on year (8.1% to 10.4%) which was a product of both efficiencies and the mitigation of risk that enabled the release of contingencies.

Austal's move to steel shipbuilding will be pivotal to increasing both order book and revenue in future years.

Austal USA delivered three vessels to the United States Navy (USN) in FY2021: USNS Newport (EPF 12) in September 2020; USS Mobile (LCS 26) in December 2020; and USS Savannah (LCS 28) in June 2021.

Two EPF are in progress at Austal USA's shipyard: USNS Apalachicola (EPF 13), to be launched in November and USNS Cody (EPF 14), which is under construction; Construction of USNS Point Loma (EPF 15) will commence in November 2021.

Four LCS are under various stages of construction. USS Canberra (LCS 30) is preparing for sea trials. USS Santa Barbara (LCS 32) is preparing to launch in October 2021. USS Augusta (LCS 34) is under construction with launch scheduled in May 2022. Modules are being built for USS Kingsville (LCS 36) in the module manufacturing facility (MMF). Finally, construction of USS Pierre (LCS 38), will commence in October 2021.

Support

Support work was impacted by:

1. The reduced volume of support work taking place due to COVID-19 impacts.
2. The cancellation of post shakedown availability dockings in the first year post delivery due to the high quality of Austal manufactured vessels – we became victims of our own success.

This caused Support revenue to fall from \$293.017 million in FY2020 to \$163.621 million in FY2021.

EBIT generated by the US Support segment increased, from \$16.868 million in FY2020 to \$26.257 million in FY2021, despite the reduction in revenue. This increase was contributed to by improved margin on fixed price contracts and award fees received.

Austal expects revenue to rebound in the long term. With a growing fleet of LCS and EPF, Austal USA's Support business continues to be a growth opportunity through winning a larger share of the available work given our recent admission to the Sustainment Execution Contract (SEC) West panel of service providers in San Diego. Austal has positioned our Support business to grow revenue by expanding our services to other ship classes, and the SEC West contract is an enabler of that expansion. A key strategic priority now is to complete our previously stated goal to secure a facility in San Diego, which is the home port for the Independence class LCS constructed by Austal.

The Company purchased additional waterside land, buildings, and an existing dry dock along the Mobile River in FY2021. The asset purchase enhances the Company's new construction capability and has opened a new revenue source in our Support business. The purchase included the 20,000 tonne 'Pete B' Panamax class floating dry dock, 100,000 square feet of covered repair facilities and 15 acres of waterfront property along the Mobile River and Gulf of Mexico. The acquisition expands Austal's new construction and service strategy by securing launch and deep water berthing capability to support future new construction efforts, including steel ships such as the new U.S. Navy Frigate (FFG) and an increased service and repair capacity.

New contract awards

- Austal was awarded an undefinitised contract for EPF 15 in February 2021. The full contract value will be US\$235 million once definitised.
- Austal was awarded a modification worth up to US\$43 million for LCS Class design services, material to support LCS Class design services and the US Navy's Integrated Data Product Model Environment (IDPME).
- The Company was awarded a US\$44 million fixed price, undefinitised, contract modification for the design, procurement, production implementation and demonstration of autonomous capability on Expeditionary Fast Transport (EPF) 13.
- We received a modification to a previously awarded Littoral Combat Ship (LCS) program contract. The modification provides Austal with a total potential additional value of US\$44.4 million. The contract modification exercises options for LCS Class design services, material to support LCS Class design services and the US Navy's Integrated Data Product Model Environment (IDPME).

Future US defense programs

Austal's steel investment programme is well underway and we are on target to be ready to commence construction of a new steel vessel programme by May 2022. The significance of this expansion is important when many of the likely future programs encompass steel hulled vessels. We have already been awarded a contract for concept studies and preliminary design by the US Navy for the Light Amphibious Warship (LAW) program. We have also been awarded a US\$3.6 million functional design contract to prepare for construction of the new Navajo class Towing, Salvage and Rescue Ship (T-ATS) for the US Navy.

We have received repeat orders for EPF and LCS over many years and now we are focused on leveraging our track record of successful delivery of these maturing

programmes to secure new work. The LCS program will end with no more orders post LCS 38, but Austal is confident that EPF and EPF variants will continue. This confidence comes from the funded design changes we received from the US Navy for modifications that maximizes the operational flexibility that the EPF hull form provides to our customers.

Safety

Finally, Austal USA earned two more safety awards this year - the 2020 Excellence in Safety award from the Shipbuilders Council of America and the 2020 Safety Award from the American Equity Underwriters. Austal USA continues to be one of the safest shipyards in the USA recording 21 safety awards since 2008.

Australasia

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

Financial performance

	2021 \$'000	2020 \$'000
Revenue		
Shipbuilding	\$ 310,055	\$ 426,020
Support	95,781	70,754
Total	\$ 405,836	\$ 496,774
EBIT		
Shipbuilding	\$ 16,020	\$ 17,839
Support	1,288	13,047
Total	\$ 17,308	\$ 30,886
EBIT Margin		
Shipbuilding	5.2%	4.2%
Support	1.3%	18.4%
Total	4.3%	6.2%

The Australasia segment reported revenue of \$405.836 million in FY2021, compared to \$496.774 million for FY2020.

EBIT was reduced from \$30.886 million in FY2020 to \$17.308 million in FY2021.

Revenue and earnings in FY2021 were impacted by reduced work in the ferry sector, rework on several defence vessels due to faulty material supply and COVID-19 impact on the supply chain and movement of people, which impacted on milestone payments and increased costs.

Shipbuilding

We delivered 7 defence vessels from Australia, including 2 Cape Class Patrol Boats (CCBP) exported to Trinidad and Tobago and 5 Guardian Class Patrol Boats for the Commonwealth of Australia's Pacific Patrol Boat Replacement Project. We also delivered 2 high speed trimaran ferries, for customers in the Canary Islands and Japan.

Austal Philippines delivered the largest commercial ferry ever constructed in the Philippines, and the largest commercial ferry (by volume) ever delivered by the Austal Group from any shipyard; Austal Vietnam delivered its first 2 commercial ferries since the shipyard opening in late 2018, while Austal's joint venture in China, Aulong, delivered 4 ferries during the year.

Progress was made on the vessels currently under construction:

- The second 117 metre Fred Olsen trimaran ferry being built in the Philippines.
- \$136 million contract for a 115 metre high speed catamaran for Molslinjen of Denmark (awarded in October 2019).
- \$324 million contract for six CCPB for the Royal Australian Navy (awarded in May 2020).

COVID-19 has slowed the commercial market significantly. We are focused on a small number of potential contracts, with particular emphasis on work for our yard in Vietnam. Both Australia and the Philippines are full with existing contracts.

The Philippines Navy OPV Contract is progressing albeit slowly as the Philippines Government deals with the challenges of COVID-19.

Support

Support activity in FY2021 included the continuation of servicing and support for the fleet of 8 Cape Class Patrol Boats operated by the Australian Border Force throughout Northern Australia, plus a support contract worth up to \$24 million over two years for CCPB 9 Cape Fourcroy and CCPB 10 Cape Inscription, being operated by the Royal Australian Navy. The acquisition of the BSE Maritime business and the yards in Cairns and Brisbane allow us to service these boats in our own facilities, with our own team. The Brisbane yard brings the opportunity to expand into the commercial support arena.

Directors' report

The Board of Directors of Austal Limited submit their report for the year ended 30 June 2021.

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, Australasia.

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.

Prior to joining Austal, Paddy was the Route Delivery Director (Western) for Network Rail in the United Kingdom. In this role he was responsible for all major infrastructure enhancements and renewals on the Route.

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

As Chief Operating Officer at Austal, Paddy had responsibility for the shipbuilding and sustainment operations in Australia, China, the Philippines and Vietnam. This responsibility covered both construction of commercial and naval vessels, and the support segment of the business, for Australian Border Force and the Royal Australian Navy. Paddy joins the Board of Austal Limited as Chief Executive Officer and oversees a global company comprising 7 shipyards and 8 service centres in 5 countries, with 5,500 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.

Giles Everist – Independent Non-Executive Director



Giles has a breadth of board and executive experience gained over his 30 year career. He has worked for a range of production and service based businesses, within the resources, engineering and construction sectors, both in Australia and overseas in the UK and Africa.

Giles was appointed as a Non-Executive Director of the Company in November 2013, became Chair of the Audit & Risk Committee in November 2015 and is a member of the Nomination & Remuneration Committee. Giles holds a mechanical engineering degree and is a qualified Chartered Accountant. Giles is currently a Non-Executive Director of Norwood Systems and Chief Financial Officer of Capital Limited. He was Chairman of ASX listed Decmil Group Limited between 2011 and 2014, formerly the Chief Financial Officer and Company Secretary of Monadelphous Group Limited between 2003 and 2009, and Chief Financial Officer of Macmahon Holdings Limited between 2017 and 2020. He has held senior financial executive roles during his career with Rio Tinto in the United Kingdom and

Australia, as well as major US design engineering group Fluor Corporation.

Giles has held a number of other Non-Executive Director and Audit & Risk Committee Chair roles with ASX listed companies including Decmil Group Limited, Logicams Limited and Macmahon Holdings Limited, as well as for a number of private and not for profit organisations.

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 Nomination & Remuneration Committee in September 2018, Deputy Chair of the Austal Limited Board in September 2019 and is a member of the Audit & Risk 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 currently the Managing Director for Wipro Australia / New Zealand. Wipro is a global company delivering innovation-led strategy, technology and business consulting services. Previously, Sarah has been the Managing Director of Publicis Sapiient Australia, Avanade Australia, Managing Partner and Vice President, Global Business Services at IBM and has also previously held senior executive roles at PwC and Arthur Andersen, leading the development and implementation of numerous digital enterprise transformation engagements

across many industries. Sarah has worked extensively across Australia / New Zealand, Asia-Pacific, as well as the Middle East and Africa, and Latin America.

Sarah is a Chartered Accountant and member of the Institute of Chartered Accountants Australia / New Zealand. Sarah holds a Bachelor of Business (Accounting) from the Queensland University of Technology and is a Graduate of the Australian Institute of Company Directors, is a member of the Diversity Council for the Australian Computer Society, was previously a Non-Executive Director, and Chair of the Finance, Audit and Risk Committee for Ovarian Cancer Australia.

Chris Indermaur – Independent Non-Executive Director



Chris was appointed as a Non-Executive Director of the Company in October 2018 and to the Nomination & Remuneration Committee and Audit & Risk Committee in August 2019. Chris has over 30 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 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. Chris is also a Director of Austin Engineering Limited.

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.

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	-	190,253
Mr Giles Everist	30,441	4,618	-
Mrs Sarah Adam-Gedge	20,000	38,388	-
Mr Chris Indermaur	-	23,265	-
Mr Mick McCormack	100,000	6,920	-

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 profit after tax of the consolidated entity for the financial year was \$81.057 million (FY2020 \$88.978 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 31.

Share price at 30 June 2021

The closing share price of Austal at 30 June 2021 was \$2.05 (30 June 2020: \$3.23).

Dividends

An unfranked dividend of 4.0 cents per share was paid after the FY2021 H1 results (FY2020 H1 3.0 cents per share) and a further dividend of 4.0 cents per share has been declared post 30 June 2021 for FY2021 (FY2020 final 5.0 cents per share).

Significant events after the balance date

The Directors have declared an unfranked dividend of 4.0 cents per share in respect of the year ended 30 June 2021 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 24, the CEO's report on page 26 and the Review of Operations on page 31.

Significant changes in the state of the affairs

On 3 June 2020 Mr David Singleton gave notice from his role as CEO and remained in this role until 31 December 2020. Mr Paddy Gregg was appointed as CEO on 1 January 2021.

On 22 February 2021 Mr Craig Perciavalle resigned as USA President and Mr Rusty Murdaugh was appointed interim USA President whilst the Company conducts a global executive search for a replacement.

As announced to the ASX on 10 June 2021, ASIC has commenced civil enforcement proceedings against the Company and its former CEO seeking declarations that Austal contravened its continuous disclosure obligations between 4 June 2016 and 4 July 2016 when announcing the write back of profits from the US LCS project.

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 2021.

Share rights, performance rights, indeterminate rights and service rights

There were 1,658,951 un-vested performance rights, 829,601 share rights, nil indeterminate rights and 736,266 service rights at 30 June 2021.

1,308,412 performance rights and 594,036 share rights, 1,419,675 indeterminate rights and 405,562 service rights were granted during FY2021.

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.

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 & Risk</u>	<u>Nomination & Remuneration</u>
Mr Giles Everist ¹	Mrs Sarah Adam-Gedge ¹
Mrs Sarah Adam-Gedge	Mr John Rothwell
Mr Chris Indermaur	Mr Giles Everist
Mr Mick McCormack ²	Mr Chris Indermaur
	Mr Mick McCormack ²

1. Chair of the committee.
2. Appointed on 9 April 2021.

Directors' meetings

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

	<u>Meeting</u>		
	<u>Board</u>	<u>Audit & Risk Committee</u>	<u>Nomination & Remuneration Committee</u>
Number of meetings held	9	4	3
Number of meetings attended:			
Mr John Rothwell	9	-	3
Mr David Singleton	4	2 ³	1 ³
Mr Paddy Gregg	8 ¹	4 ³	2 ³
Mr Giles Everist	8	4	3
Mrs Sarah Adam-Gedge	9	4	3
Mr Chris Indermaur	9	4	3
Mr Mick McCormack	7 ²	2 ⁴	2 ⁴

1. Attended 3 of the 8 meetings as a guest.
2. Mr Mick McCormack was appointed as a Director on a casual basis on 14 September 2020 until his appointment was confirmed by shareholders at the AGM in October 2020.
3. Attended as a guest.
4. Mr Mick McCormack attended as a guest from February 2021 until his appointment on 9 April 2021.

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.

Nomination & Remuneration Committee Chair's message

Dear Shareholder,

The Board of Directors are pleased to present the Remuneration Report for the year ending 30 June 2021, 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.

2020 remuneration resolutions

I would like to thank shareholders for the positive support provided in favour of remuneration related resolutions at the 2020 AGM.

KMP remuneration

Despite the continuing global pandemic creating challenges for the business in relation to the volume and timing of work, we have seen continued strong earnings amid global economic volatility. All our shipyards remained open and fully operational during periods of restrictions, whilst ensuring all required measures were in place to keep our employees safe. It is a testament to the experience and dedication of all our leaders and employees that the business was able to operate to a high standard whilst COVID-19 persisted, minimising the impact for our customers.

KMP performance has been assessed against specific performance objectives and have been awarded short term incentives based on the achievement of those objectives as detailed in this report. In addition, the consistent and improved performance of the business over the last three years supports the achievement of long term incentives, aligned to the interests of shareholders.

External remuneration consultants have recently been engaged to benchmark KMP and other executives globally. Results from this exercise will be considered as part of FY2022 annual remuneration review.

KMP update

We have seen a number of changes to KMP this year. Mr David Singleton resigned as Chief Executive Officer in June 2020 after 5 years of service. Mr Paddy Gregg, Chief Operating Officer, was appointed to replace him, commencing in the role on 1 January 2021 in line with planned succession from his initial appointment in 2017. External remuneration benchmarking was conducted to position Mr Gregg's salary in line with market expectations.

As a result of a global search during the year, we appointed Mr Ian McMillan in the role of Chief Operating Officer and he commenced on 4 January 2021.

Mr Craig Perciavalle resigned as USA President in February 2021. Mr Rusty Murdaugh was appointed Interim President USA whilst the company conducts a global executive search for a replacement.

Austal announced the promotion of Mr Andrew Malcolm to the newly created KMP role of Chief Digital Officer in July 2020. After reviewing the Corporations Act definition of KMP, it has been determined that Mr Malcolm's role does not meet the criteria for Remuneration Reporting, hence his details do not appear in the Annual Report.

Board Changes

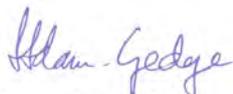
As part of the annual review of the skills matrix of the Board, the board identified the need for additional skills to support the future growth of the company. After conducting a search, the Board appointed Mick McCormack as Non-Executive Director in September 2020.

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,



Sarah Adam-Gedge
Chair, Nomination & Remuneration Committee

Remuneration report

This Remuneration Report for the year ended 30 June 2021 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 2021 were:

Senior Executives

Mr Paddy Gregg Chief Operating Officer Australasia from February 2017 - December 2020
Chief Executive Officer and Managing Director since January 2021

Mr Greg Jason Group Chief Financial Officer since January 2013

Mr Ian McMillan Chief Operating Officer Australasia since January 2021

Mr Rusty Murdaugh Interim President USA since February 2021

The following persons ceased to be Senior Executives during FY2021:

Mr David Singleton Independent Non-Executive Director from December 2011 to April 2016
Chief Executive Officer and Managing Director from April 2016 - December 2020

Mr Craig Perciavalle President USA from November 2012 - February 2021

Non-Executive Directors

Mr John Rothwell Chairman since 1998
Member of the Nomination & Remuneration Committee since December 1998

Mr Giles Everist Independent Non-Executive Director since November 2013
Member of the Nomination & Remuneration Committee since February 2014
Chair of the Audit & Risk Committee since October 2014

Mrs Sarah Adam-Gedge Independent Non-Executive Director since August 2017
Member of the Audit & Risk Committee since August 2017
Chair of the Nomination & Remuneration Committee since September 2018
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

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

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 during FY2020 and Executives during FY2021.

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 ERC 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 (ERC)
- 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 (NRC).
Independent External Remuneration Consultants (ERC).
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.
- Total Remuneration Package (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.

The number of share rights issued will be calculated monthly based upon the volume weighted average closing price of Austal Limited's shares in the last 5 share ASX trading days of each month.

The balance of the CEO's TFR is to be paid in cash (i.e. TFR less the component granted in share rights if applicable in a given year).

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.

The Austal USA President receives 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 awarded in FY2021 was reduced from 3 years to 1 year after an assessment of common practice in the Australian market.

The minimum holding period 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. The final STI award is determined subsequent to financial year end, with the payment made in September of the following financial year.

The Board has the discretion to not grant STI performance awards in the event of substandard Group performance, notwithstanding that individuals may have achieved their agreed performance targets. This demonstrates the Board's commitment to aligning remuneration with the expectations and outcomes of shareholders.

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 FY2021 KPI are contained in the STI KPI target and outcomes section commencing on page 56.

ix. Cessation of employment during a measurement period

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

x. Cessation of employment post measurement period

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.

xi. 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.

xii. 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.

xiii. 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.

xiv. 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.

xv. 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 the 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.

xvi. STI award opportunities

The FY2021 STI award opportunities are contained in the STI KPI target and outcomes section on page 56.

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. No dividends are payable nor accrued on Performance Rights which are unvested.

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. No dividends are payable nor accrued on Performance Rights which are unvested. 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 FY2021 LTI grant are contained on page 68.

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 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 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 a 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.
- 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.

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.

xii. 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.

xiii. 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.

xiv. 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.

xv. Change of control of the company

Target LTI will vest in proportion to the portion of the measurement period that has elapsed in the event that a change of control of the Company occurs.

The LTI will be valued based upon the value of the share price immediately before the change of control event occurs.

4. Executive KMP remuneration

I. 5 year performance

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

		Financial Year				
		2017	2018	2019	2020	2021
Earnings measures		1.				
EBIT (Earnings before interest & tax)	\$'000	\$ 45,538	\$ 63,489	\$ 92,795	\$ 130,396	\$ 114,619
NPAT (Net profit after tax)	\$'000	15,350	37,533	61,384	88,978	81,057
Basic Earnings per share	\$ / share	\$ 0.04	\$ 0.11	\$ 0.18	\$ 0.25	\$ 0.23
Dividends paid	\$ / share	\$ 0.04	\$ 0.04	\$ 0.06	\$ 0.06	\$ 0.09
Share price						
Opening	\$ / share	\$ 1.74	\$ 1.83	\$ 1.86	\$ 3.41	\$ 3.23
Closing	\$ / share	1.83	1.86	3.41	3.23	2.05
Movement	\$ / share	\$ 0.09	\$ 0.03	\$ 1.55	\$ (0.18)	\$ (1.18)

1. FY2018 EBIT, NPAT and EPS have been restated for the retrospective application of AASB 15 Revenue from Contracts with Customers.

II. FY2021 award opportunities

i. Target remuneration

The table below depicts the Target remuneration for KMP in FY2021 including:

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

Target awards are applied to Total Fixed Remuneration.

KMP	TFR		STI Opportunity		LTI Opportunity		Total
	\$	% of TFR	\$	% of TFR	\$	% of TFR	\$
Mr David Singleton ¹	\$ 554,279	67%	\$ 369,519	0%	\$ -		\$ 923,798
Mr Paddy Gregg ²							
- COO Australasia (H1)	\$ 255,000	40%	\$ 102,000	35%	\$ 89,250		\$ 446,250
- CEO (H2)	437,500	45%	196,875	50%	218,750		853,125
- Total FY2021	<u>\$ 692,500</u>	<u>43%</u>	<u>\$ 298,875</u>	<u>44%</u>	<u>\$ 308,000</u>		<u>\$ 1,299,375</u>
Mr Greg Jason	\$ 575,657	40%	\$ 230,263	35%	\$ 201,480		\$ 1,007,400
Mr Ian McMillan ³	248,892	40%	99,557	0%	-		348,449
Mr Craig Perciavalle ⁴	682,887	30%	204,866	50%	341,444		1,229,197
Mr Rusty Murdaugh ⁵	271,013	23%	60,978	20%	54,203		386,194
% of Total							
Mr David Singleton		60%		40%		0%	100%
Mr Paddy Gregg							
- COO Australasia (H1)		57%		23%		20%	100%
- CEO (H2)		51%		23%		26%	100%
- Total FY2021		<u>53%</u>		<u>23%</u>		<u>24%</u>	<u>100%</u>
Mr Greg Jason		57%		23%		20%	100%
Mr Ian McMillan		71%		29%		0%	100%
Mr Craig Perciavalle		56%		17%		27%	100%
Mr Rusty Murdaugh		70%		16%		14%	100%

1. Mr David Singleton resigned effective 31 December 2020

2. Mr Paddy Gregg was appointed as Chief Executive Officer on 1 January 2021

3. Mr Ian McMillan was appointed as Chief Operating Officer on 1 January 2021

4. Mr Craig Perciavalle resigned effective 22 February 2021

5. Mr Rusty Murdaugh was appointed as Interim President USA on 22 February 2021

ii. **Stretch [Maximum] remuneration**

The table below depicts the Stretch (Maximum) remuneration for KMP in FY2021 including:

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

Stretch awards are applied to Total Fixed Remuneration.

KMP	TFR		STI Opportunity		LTI Opportunity		Total
	\$	% of TFR	\$	% of TFR	\$	% of TFR	\$
Mr David Singleton ¹	\$ 554,279	100%	\$ 554,279	0%	\$ -		\$ 1,108,558
Mr Paddy Gregg ²							
- COO Australasia (H1)	\$ 255,000	60%	\$ 153,000	70%	\$ 178,500		\$ 586,500
- CEO (H2)	437,500	68%	295,313	100%	437,500		1,170,313
- Total FY2021	<u>\$ 692,500</u>	<u>65%</u>	<u>\$ 448,313</u>	<u>89%</u>	<u>\$ 616,000</u>		<u>\$ 1,756,813</u>
Mr Greg Jason	\$ 575,657	60%	\$ 345,394	70%	\$ 402,960		\$ 1,324,011
Mr Ian McMillan ³	248,892	60%	149,335	0%	-		398,227
Mr Craig Perciavalle ⁴	682,887	60%	409,732	100%	682,887		1,775,506
Mr Rusty Murdaugh ⁵	271,013	45%	121,956	40%	108,405		501,374
% of Total							
Mr David Singleton	50%		50%		0%		100%
Mr Paddy Gregg							
- COO Australasia (H1)	43%		26%		31%		100%
- CEO (H2)	37%		25%		38%		100%
- Total FY2021	<u>39%</u>		<u>26%</u>		<u>35%</u>		<u>100%</u>
Mr Greg Jason	43%		26%		31%		100%
Mr Ian McMillan	63%		37%		0%		100%
Mr Craig Perciavalle	38%		23%		39%		100%
Mr Rusty Murdaugh	54%		24%		22%		100%

1. Mr David Singleton resigned effective 31 December 2020

2. Mr Paddy Gregg was appointed as Chief Executive Officer on 1 January 2021

3. Mr Ian McMillan was appointed as Chief Operating Officer on 1 January 2021

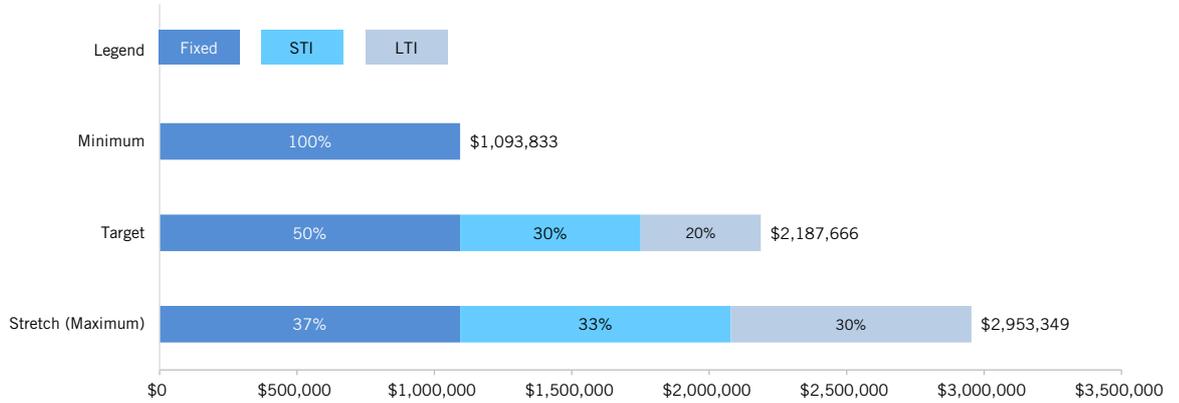
4. Mr Craig Perciavalle resigned effective 22 February 2021

5. Mr Rusty Murdaugh was appointed as Interim President USA on 22 February 2021

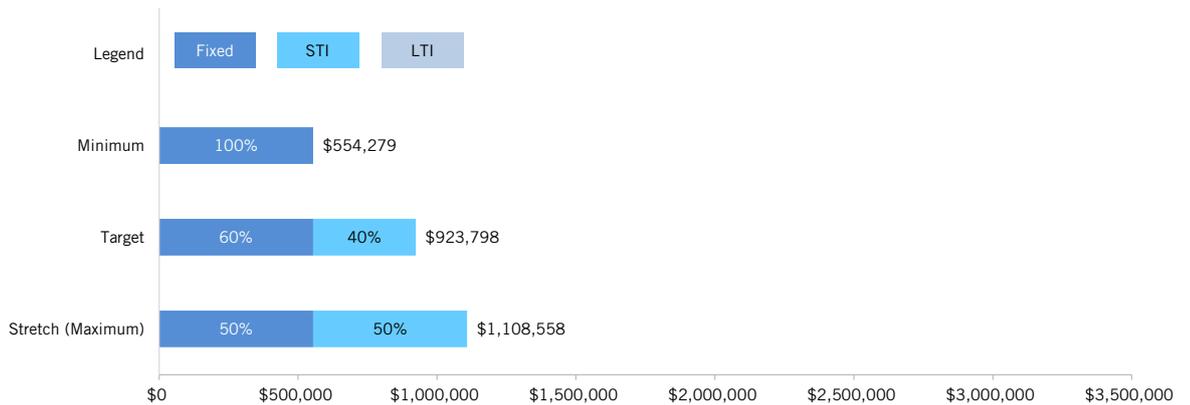
III. CEO remuneration

These chart depicts 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).

FY2020 CEO Remuneration - Mr David Singleton (1 July 2019 - 30 June 2020)



FY2021 CEO Remuneration - Mr David Singleton (1 July 2020 - 31 December 2020)



FY2021 CEO Remuneration - Mr Paddy Gregg (1 January 2021 - 30 June 2021)



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 FY2021, given the business plans approved by the Board at the commencement of the financial year.

Chief Executive Officer - Mr David Singleton (1 July 2020 - 31 December 2020)

Measures	Weight	Actual Performance			Targets				
		Below	Stretch	Award	Threshold	Target	Stretch	Actual	
Individual Targets	100.00%				100%	Further detail is provided below			

Chief Operating Officer Australasia - Mr Paddy Gregg (1 July 2020 - 31 December 2020)

Measures	Weight	Actual Performance			Targets			
		Below	Stretch	Award	Threshold	Target	Stretch	Actual
Australasia EBIT	25.00%			-	\$ 34 m	\$ 38 m	\$ 43 m	\$ 11 m
Australasia EBIT margin ¹	11.25%			-	8.3%	8.3%	9.3%	2.6%
Australasia Free Cash flow	10.00%			100%	\$ (50) m	\$ (46) m	\$ (44) m	\$ (37) m
Growth Australasia	13.75%			50%	Further detail is provided below			
Shareholder Value	15.00%			100%	Further detail is provided below			
R&D and Strategic Acquisitions	25.00%			100%	Further detail is provided below			
Total	100.00%			57%				

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

Chief Executive Officer - Mr Paddy Gregg (1 January 2021 - 30 June 2021)

Measures	Weight	Actual Performance			Targets			
		Below	Stretch	Award	Threshold	Target	Stretch	Actual
Group EBIT	15.00%			23%	\$ 106 m	\$ 131 m	\$ 146 m	\$ 115 m
Group Free Cash flow	15.00%			100%	\$ 0 m	\$ 17 m	\$ 35 m	\$ 73 m
Australasia EBIT margin ¹	11.25%			-	8.3%	8.3%	9.3%	2.6%
Growth USA	10.00%			67%	Further detail is provided below			
Growth Australasia	25.00%			30%	Further detail is provided below			
Business Profitability	3.75%			100%	Further detail is provided below			
R&D & Strategic Acquisitions	20.00%			93%	Further detail is provided below			
Total	100.00%			55%				

Chief Financial Officer - Mr Greg Jason

Measures	Weight	Actual Performance			Targets			
		Below	Stretch	Award	Threshold	Target	Stretch	Actual
Group EBIT	15.00%			23%	\$ 106 m	\$ 131 m	\$ 146 m	\$ 115 m
Group Free Cash flow	15.00%			100%	\$ 0 m	\$ 17 m	\$ 35 m	\$ 73 m
Australasia EBIT margin ¹	11.25%			-	8.3%	8.3%	9.3%	2.6%
Growth USA	10.00%			67%	Further detail is provided below			
Growth Australasia	25.00%			30%	Further detail is provided below			
Business Profitability	3.75%			100%	Further detail is provided below			
R&D & Strategic Acquisitions	20.00%			93%	Further detail is provided below			
Total	100.00%			55%				

Chief Operating Officer Australasia - Mr Ian McMillan (1 January 2021 - 30 June 2021)

Measures	Weight	Actual Performance			Targets			
		Below	Stretch	Award	Threshold	Target	Stretch	Actual
Australasia EBIT	25.00%			-	\$ 34 m	\$ 38 m	\$ 43 m	\$ 11 m
Australasia EBIT margin ¹	11.25%			-	8.3%	8.3%	9.3%	2.6%
Australasia Free Cash flow	10.00%			100%	\$ (50) m	\$ (46) m	\$ (44) m	\$ (37) m
Growth Australasia	13.75%			50%	Further detail is provided below			
Shareholder Value	15.00%			100%	Further detail is provided below			
R&D and Strategic Acquisitions	25.00%			100%	Further detail is provided below			
Total	100.00%			57%				

President USA - Mr Craig Perciavalle (1 July 2020 - 22 February 2021)

Mr Craig Perciavalle resigned effective 22 February 2021 and hence his FY2021 STI award was zero.

Interim President USA - Mr Rusty Murdaugh (22 February 2021 - 30 June 2021)

Measures	Weight	Actual Performance			Targets			
		Below	Stretch	Award	Threshold	Target	Stretch	Actual
USA EBIT (USD)	40.00%			100%	\$ 76 m	\$ 80 m	\$ 87 m	\$ 97 m
USA Free Cash flow (USD)	10.00%			100%	\$ 73 m	\$ 77 m	\$ 81 m	\$ 117 m
Safety (Total Recordable Incident Rate)	30.00%			100%	2.85	2.65	2.50	1.73
Overhead Performance	10.00%			79%	Further detail is provided below			
Growth Projects	10.00%			67%	Further detail is provided below			
Total	100.00%			95%				

Chief Executive Officer - Mr David Singleton (1 July 2020 - 31 December 2020)

Growth & Order Intake KPI (100% Award)

Subic Bay acquisition - significant progress.
Progress Philippines Navy Offshore Patrol Vessel Program.
San Diego dry dock strategy.
Post LCS shipbuilding strategy and USA steel shipbuilding capability.
Refresh company strategy.
Effective transition to new CEO.

Chief Operating Officer Australasia - Mr Paddy Gregg (1 July 2020 - 31 December 2020)

Growth Australasia (50% Award)

Multiple commercial ship construction contract awards (commercial in confidence, 'CIC').
Tangible progress on a shipbuilding program for Subic Bay.
Win Philippines Navy Offshore Patrol Vessel Program contract for 6 ships at a Board approved margin (CIC).
Support revenue growth for future years (CIC).

Shareholder Value (100% Award)

Cost savings (CIC).

R&D and Strategic Acquisitions (100% Award)

Defence market strategy - Asia.

Chief Executive Officer - Mr Paddy Gregg (1 January 2021 - 30 June 2021)

Growth USA (67% Award)

EPF 15 awarded from FY2021 USA Defense Budget (not fully definitised as at 30 June 2021).
Win concept design award contracts.
2 additional vessels (EPF size) awarded from FY2021 USA Defense Budget.
Subic Bay start-up supporting FY2022 revenue target (CIC).
Support revenue growth at Board approved EBIT margin (CIC).

Growth Australasia (30% Award)

Tangible progress on Subic Bay shipbuilding program.
Win Philippines Navy OPV contract award.
Multiple commercial ship construction contract awards (CIC).
Support revenue growth for future years (CIC).

Business Profitability (100% Award)

Secure Subic Bay acquisition and mobilisation funding (CIC).
Cost savings (CIC).

R&D & Strategic Acquisitions (93% Award)

Defence market strategy - Asia.
Subic Bay completed at target returns (CIC).
San Diego dry dock business case approved.
Market recognition of R&D focus area.
Contract award in R&D focus area.

Chief Financial Officer - Mr Greg Jason

As per Paddy Gregg's CEO Objectives

Chief Operating Officer Australasia - Mr Ian McMillan (1 January 2021 - 30 June 2021)

Growth Australasia (50% Award)

Multiple commercial ship construction contract awards (CIC).
Win Philippines Navy Offshore Patrol Vessel Program contract for 6 ships at a Board approved margin (CIC).
Support revenue growth for future years (CIC).

Shareholder Value (100% Award)

Cost savings (CIC).

R&D and Strategic Acquisitions (100% Award)

Defence market strategy - Asia.

President USA - Mr Craig Perciavalle (1 July 2020 - 22 February 2021)

Mr Craig Perciavalle resigned effective 22 February 2021 and hence his FY2021 STI award was zero.

Interim President USA - Mr Rusty Murdaugh (22 February 2021 - 30 June 2021)

Overhead Performance (79% Award)

Overhead cost reductions (CIC).

Growth Projects (67% Award)

San Diego acquisition and dry dock investment approved and committed.
Subic Bay acquisition approved and committed and ready for FY2022 Revenue target (CIC).

V. LTI vesting

i. FY2019 Performance rights grant

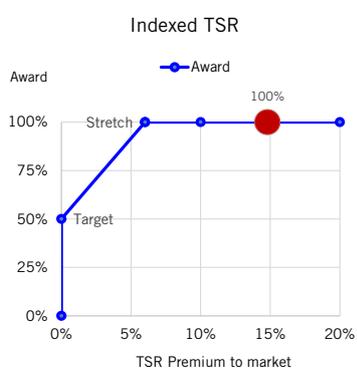
411,211 Performance Rights were granted to KMP in FY2019, who were still employed by Austal at 30 June 2021.

ii. Measurement period

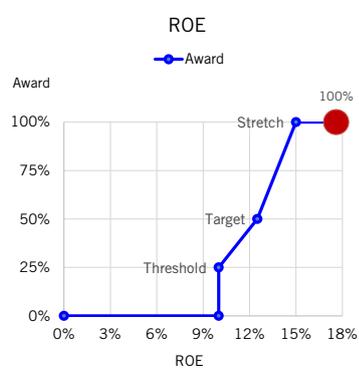
100% of the Performance Rights granted in FY2019 had a 3 year Measurement period from 1 July 2019 – 30 June 2021.

iii. FY2019 LTI vesting performance

The performance criteria relating to the FY2019 grant of Performance Rights to KMP are detailed below:



Indexed TSR = Austal TSR Premium to Market



ROE = NPAT / Equity (Excluding Reserves)



EPSG = CAGR EPS¹ (Base Year) to EPS (Final Year)

1. CAGR = Compound Annual Growth Rate

iv. FY2019 LTI vesting awards

KMP	Tranche	Weight	Granted	Vesting		Value @ Grant Date
				%	Number	
VWAP @ Grant Date						\$ 2.05
Mr Paddy Gregg	iTSR	34%	63,418	100%	63,418	\$ 129,774
	ROE	33%	63,418	100%	63,418	129,774
	EPSG	33%	63,417	100%	63,417	129,772
	Total	100%	190,253	100%	190,253	\$ 389,320
Mr Greg Jason	iTSR	34%	73,653	100%	73,653	\$ 150,719
	ROE	33%	73,653	100%	73,653	150,719
	EPSG	33%	73,652	100%	73,652	150,717
	Total	100%	220,958	100%	220,958	\$ 452,155
Mr Rusty Murdaugh ¹	iTSR	34%	32,190	100%	32,190	\$ 65,871
	ROE	33%	32,190	100%	32,190	65,871
	EPSG	33%	32,191	100%	32,191	65,874
	Total	100%	96,571	100%	96,571	\$ 197,616

1. Mr Rusty Murdaugh was appointed as Interim President USA on 22 February 2021

VI. Realised Executive remuneration [non-statutory disclosure]

The Realised Remuneration tables below are provided to convey the actual remuneration awarded to KMP during FY2021 and FY2020 rather than the statutory disclosure required under the accounting standards and includes:

- The portion of Total Fixed Remuneration (TFR) paid in cash.
- The portion of TFR contributed to superannuation plans or pension schemes.
- STI awarded but not yet paid for results commencing on page 56.
- The value of LTI rights vesting following the conclusion of the relevant measurement period using the Volume Weighted Average Price (VWAP) at the grant date.

The CEO and the CFO had a leave loading entitlement embedded in their employment contracts. The leave loading entitlement was terminated during FY2020. All accrued leave loading entitlements were paid to Mr David Singleton and Mr Greg Jason during FY2020 and were disclosed in the FY2020 realised and statutory remuneration tables. Future leave loading entitlements were converted into a TFR increase from FY2021 onwards which was \$14,724 for Mr David Singleton and \$7,651 for Mr Greg Jason.

FY2021

KMP	Total Fixed Remuneration				Payout ¹	FY2021 STI Awarded			LTI	Total
	Super-annuation /			Total	Annual Leave	Indeterminate		Total	FY2019 Vesting	Total
	Cash	Pension	Other			Cash	Rights			
Value @ Grant VWAP ²									\$ 2.05	
Mr David Singleton ³	\$ 541,779	\$ 12,500	\$ -	\$ 554,279	\$ 51,798	\$ 554,279	\$ -	\$ 554,279	\$ -	\$ 1,160,356
Mr Paddy Gregg										
- COO Australasia (H1)	\$ 244,153	\$ 10,847	\$ -	\$ 255,000	\$ -	\$ 43,509	\$ 43,509	\$ 87,018	\$ -	\$ 342,018
- CEO (H2)	426,653	10,847	-	437,500	-	81,211	81,210	162,421	389,320	989,241
- Total	\$ 670,806	\$ 21,694	\$ -	\$ 692,500	\$ -	\$ 124,720	\$ 124,719	\$ 249,439	\$ 389,320	\$ 1,331,259
Mr Greg Jason	\$ 553,963	\$ 21,694	\$ -	\$ 575,657	\$ -	\$ 94,983	\$ 94,983	\$ 189,966	\$ 452,155	\$ 1,217,778
Mr Ian McMillan ⁴	227,299	21,593	-	248,892	-	42,467	42,467	84,934	-	333,826
Mr Craig Perciavalle ⁵	551,835	72,072	58,980	682,887	114,228	-	-	-	-	797,115
Mr Rusty Murdaugh ⁶	227,458	22,746	20,809	271,013	-	265,020	-	265,020	197,616	733,649
Total	\$ 2,773,140	\$ 172,299	\$ 79,789	\$ 3,025,228	\$ 166,026	\$ 1,081,469	\$ 262,169	\$ 1,343,638	\$ 1,039,091	\$ 5,573,983
% of Total										
Mr David Singleton				48%	4%			48%	-	100%
Mr Paddy Gregg				52%	-			19%	29%	100%
Mr Greg Jason				47%	-			16%	37%	100%
Mr Ian McMillan				75%	-			25%	-	100%
Mr Craig Perciavalle				86%	14%			-	-	100%
Mr Rusty Murdaugh				37%	-			36%	27%	100%

FY2020

KMP	Total Fixed Remuneration				Legacy Buy Out ⁷	FY2020 STI Awarded			LTI	Total
	Super-annuation /			Total	Leave Loading	Indeterminate		Total	FY2018 Vesting	Total
	Cash	Pension	Other			Cash	Rights			
Value @ Grant VWAP ²									\$ 1.80	
Mr David Singleton	\$ 1,072,830	\$ 21,003	\$ -	\$ 1,093,833	\$ 45,278	\$ 413,016	\$ 413,016	\$ 826,032	\$ 1,071,511	\$ 3,036,654
Mr Paddy Gregg	488,998	21,002	-	510,000	-	107,100	107,100	214,200	321,428	1,045,628
Mr Greg Jason	547,003	21,003	-	568,006	25,497	143,139	143,139	286,278	371,389	1,251,170
Mr Craig Perciavalle	894,188	109,230	88,755	1,092,173	-	505,395	-	505,395	425,369	2,022,937
Total	\$ 3,003,019	\$ 172,238	\$ 88,755	\$ 3,264,012	\$ 70,775	\$ 1,168,650	\$ 663,255	\$ 1,831,905	\$ 2,189,697	\$ 7,356,389
% of Total										
Mr David Singleton				36%	2%			27%	35%	100%
Mr Paddy Gregg				49%	-			20%	31%	100%
Mr Greg Jason				45%	2%			23%	30%	100%
Mr Craig Perciavalle				54%	-			25%	21%	100%

1. This balance represents the KMP's annual leave entitlement paid out on termination

2. Value @ Grant VWAP is the Volume Weighted Average Share Price utilised for the respective LTI grant

3. Mr David Singleton resigned effective 31 December 2020

4. Mr Ian McMillan was appointed as Chief Operating Officer on 1 January 2021

5. Mr Craig Perciavalle resigned effective 22 February 2021

6. Mr Rusty Murdaugh was appointed as Interim President USA on 22 February 2021. The FY2021 STI Awarded represents the full year award.

7. Refer to the explanation above

VII. Statutory remuneration disclosure

The following table outlines the remuneration received by Executive KMP during FY2021 and FY2020, prepared according to statutory disclosure requirements and accounting standards:

FY2021	Fixed Remuneration					Variable Remuneration		Annual Leave Payout ¹	Total
	KMP	Super-annuation /	Other Monetary	Long Service Leave	Total	STI Accrued	LTI	Annual Leave	
		Salary ²	Benefits	Accrued			Accounting Expense ³		
Mr David Singleton ⁴	\$ 532,666	\$ 12,500	\$ -	\$ (35,650)	\$ 509,516	\$ 554,279	\$ -	\$ 51,798	\$ 1,115,593
Mr Paddy Gregg	721,075	21,694	-	16,434	759,203	249,439	400,229	-	1,408,871
Mr Greg Jason	562,333	21,694	-	10,663	594,690	189,966	375,101	-	1,159,757
Mr Ian McMillan ⁵	245,950	21,593	-	500	268,043	84,934	-	-	352,977
Mr Craig Perciavalle ⁶	556,361	72,072	58,980	-	687,413	-	(662,331)	114,228	139,310
Mr Rusty Murdaugh ⁷	240,053	22,746	20,809	-	283,608	265,020	71,447	-	620,075
Total	\$ 2,858,438	\$ 172,299	\$ 79,789	\$ (8,053)	\$ 3,102,473	\$ 1,343,638	\$ 184,446	\$ 166,026	\$ 4,796,583
% of Total									
Mr David Singleton					46%	50%	-	4%	100%
Mr Paddy Gregg					54%	18%	28%	-	100%
Mr Greg Jason					51%	17%	32%	-	100%
Mr Ian McMillan					76%	24%	-	-	100%
Mr Craig Perciavalle					493%	-	(475%)	82%	100%
Mr Rusty Murdaugh					46%	43%	11%	-	100%

FY2020	Fixed Remuneration					Variable Remuneration		Legacy Buy Out ⁹	Total
	KMP	Super-annuation /	Other Monetary	Long Service Leave	Total	STI Accrued	LTI	Leave Loading	
		Salary ²	Benefits	Accrued			Accounting Expense ³		
Mr David Singleton ⁸	\$ 983,402	\$ 21,003	\$ -	\$ 14,071	\$ 1,018,476	\$ 826,032	\$ (41,090)	\$ 45,278	\$ 1,848,696
Mr Paddy Gregg	508,344	21,002	-	3,959	533,305	214,200	309,153	-	1,056,658
Mr Greg Jason	550,834	21,003	-	13,200	585,037	286,278	353,673	25,497	1,250,485
Mr Craig Perciavalle	913,712	109,230	88,755	-	1,111,697	505,395	556,346	-	2,173,438
Total	\$ 2,956,292	\$ 172,238	\$ 88,755	\$ 31,230	\$ 3,248,515	\$ 1,831,905	\$ 1,178,082	\$ 70,775	\$ 6,329,277
% of Total									
Mr David Singleton					55%	45%	(2%)	2%	100%
Mr Paddy Gregg					50%	20%	30%	-	100%
Mr Greg Jason					47%	23%	28%	2%	100%
Mr Craig Perciavalle					51%	23%	26%	-	100%

1. This balance represents the KMP's annual leave entitlement 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 David Singleton resigned effective 31 December 2020

5. Mr Ian McMillan was appointed as Chief Operating Officer on 1 January 2021

6. Mr Craig Perciavalle resigned effective 22 February 2021

7. Mr Rusty Murdaugh was appointed as Interim President USA on 22 February 2021. The FY2021 STI Awarded represents the full year award.

8. Mr David Singleton's FY2019 and FY2020 LTI grants were forfeited in accordance with his resignation in June 2020 and the lifetime Profit and Loss expense of these plans was reversed

9. Refer to the explanation below

The CEO and the CFO had a leave loading entitlement embedded in their employment contracts. The leave loading entitlement was terminated during FY2020. All accrued leave loading entitlements were paid to Mr David Singleton and Mr Greg Jason during FY2020 and were disclosed in the FY2020 realised and statutory remuneration tables. Future leave loading entitlements were converted into a TFR increase from FY2021 onwards which was \$14,724 for Mr David Singleton and \$7,651 for Mr Greg Jason.

VIII. Reconciliation of realised remuneration and statutory remuneration

The Corporations Act mandates the manner in which the cost of all forms of remuneration are disclosed within the Remuneration Report such as the following matters:

- Share based payments expense for LTI plans represents the portion of the actuarial valuation of all relevant Performance Rights (grants across multiple years) expensed within the reporting period including adjustments for forfeiture and vesting outcomes for internal measures of performance.
- Salary represents the amount expensed in the Profit and Loss statement during the reporting period which will be influenced by the number of leave days taken (e.g. salary and fees expensed will be higher for a KMP who didn't take any annual leave days during the reporting period because the expense will represent the 12 months worked plus the value of leave accrued (e.g. 4 weeks in Australia)).

The following table reconciles the realised remuneration received by Executive KMP during FY2021 and FY2020 with the statutory remuneration disclosures for those years.

KMP	Remuneration			Explanation of Variance			
	Realised	Statutory	Variance	LTI Vesting versus Expense	Long Service Leave Provision	Leave Provision Movement	Total
Mr David Singleton	\$ 1,160,356	\$ 1,115,593	\$ 44,763	\$ -	\$ 35,650	\$ 9,113	\$ 44,763
Mr Paddy Gregg	1,331,259	1,408,871	(77,612)	(10,909)	(16,434)	(50,269)	(77,612)
Mr Greg Jason	1,217,778	1,159,757	58,021	77,054	(10,663)	(8,370)	58,021
Mr Ian McMillan	333,826	352,977	(19,151)	-	(500)	(18,651)	(19,151)
Mr Craig Perciavalle ¹	797,115	139,310	657,805	662,331	-	(4,526)	657,805
Mr Rusty Murdaugh	733,649	620,075	113,574	126,169	-	(12,595)	113,574

1. Mr Craig Perciavalle'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 FY2019 and FY2020 grants within the Statutory Remuneration table.

KMP	Remuneration			Explanation of Variance			
	Realised	Statutory	Variance	LTI Vesting versus Expense	Long Service Leave Movement	Leave Provision Movement	Total
Mr David Singleton ¹	\$ 3,036,654	\$ 1,848,696	\$ 1,187,958	\$ 1,112,601	\$ (14,071)	\$ 89,428	\$ 1,187,958
Mr Paddy Gregg	1,045,628	1,056,658	(11,030)	12,275	(3,959)	(19,346)	(11,030)
Mr Greg Jason	1,251,170	1,250,485	685	17,716	(13,200)	(3,831)	685
Mr Craig Perciavalle	2,022,937	2,173,438	(150,501)	(130,977)	-	(19,524)	(150,501)

1. Mr David Singleton's significant 'LTI Vesting versus Expense' variance represents the difference between the FY2018 LTI grant fully vesting as shown in the Realised Remuneration table and the reversal of the previously booked Share Based Payment expense in relation to the forfeited FY2019 and FY2020 grants within the Statutory Remuneration table.

IX. CEO Transition

Austral announced in June 2020 that its Chief Operating Officer – Australasia, Mr Paddy Gregg would be promoted to the position of Chief Executive Officer (CEO) effective 1 January 2021, following a six month transition from Mr David Singleton who resigned as Managing Director and CEO effective 31 December 2020.

A smooth transition from Mr David Singleton to Mr Paddy Gregg was effected as planned over the 6 months leading up to 1 January 2021.

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 FY2021.
- NED remuneration was last externally benchmarked and adjusted in FY2020. There was no change in the fees for FY2021.
- 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:

FY2021	Role		
	Chair	Deputy Chair	Member
Board of Directors	\$ 200,000	\$ 110,000	\$ 100,000
Audit & Risk Committee	20,000	N/A	10,000
Nomination & Remuneration Committee	20,000	N/A	10,000

FY2020	Role		
	Chair	Deputy Chair	Member
Board of Directors	\$ 200,000	\$ 110,000	\$ 100,000
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 share rights provided to Mrs Sarah Adam-Gedge, Mr Chris Indermaur and Mr Mick McCormack were approved by Shareholders during the 2020 Annual General Meeting. The share rights for Mr Giles Everist are provisional and will be subject to approval at the 2021 Annual General Meeting. Mr Giles Everist will be paid additional cash fees if the share rights are not approved by shareholders at the 2021 AGM.

IV. NED remuneration in FY2021

The following table outlines the remuneration received by NED of the Company during FY2021 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	
Mr John Rothwell	\$ 182,648	\$ 17,352	\$ -	\$ 200,000	\$ 9,132	\$ 868	\$ 10,000	\$ 210,000
Mr Giles Everist	81,811	7,772	10,417	100,000	27,397	2,603	30,000	130,000
Mrs Sarah Adam-Gedge	80,060	2,440	27,500	110,000	30,000	-	30,000	140,000
Mr Chris Indermaur	68,493	6,507	25,000	100,000	18,265	1,735	20,000	120,000
Mr Mick McCormack ¹	57,838	5,495	16,667	80,000	4,168	396	4,564	84,564
Total	\$ 470,850	\$ 39,566	\$ 79,584	\$ 590,000	\$ 88,962	\$ 5,602	\$ 94,564	\$ 684,564

	Board Fees				Committee Fees			Total
	Cash	Super- annuation	Share Rights	Total	Cash	Super- annuation	Total	
Mr John Rothwell	\$ 182,648	\$ 17,352	\$ -	\$ 200,000	\$ 9,132	\$ 868	\$ 10,000	\$ 210,000
Mr Giles Everist	91,324	8,676	-	100,000	27,397	2,603	30,000	130,000
Mrs Sarah Adam-Gedge	75,723	7,194	27,083	110,000	29,456	126	29,583	139,583
Mr Chris Indermaur	68,493	6,507	25,000	100,000	18,626	1,374	20,000	120,000
Total	\$ 418,189	\$ 39,728	\$ 52,083	\$ 510,000	\$ 84,613	\$ 4,970	\$ 89,583	\$ 599,583

1. Mr Mick McCormack became a NED in September 2020.

6. Equity instruments held by KMP

I. FY2019 performance rights vesting

Further information relating to the FY2019 Performance Rights vesting is provided on page 61.

II. FY2020 performance rights

i. Performance rights

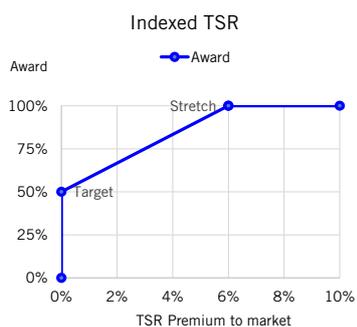
197,677 Performance rights were granted to KMP in FY2020, who were still employed by Austal and whose rights were not lapsed, forfeited or vested at 30 June 2021.

ii. Measurement period

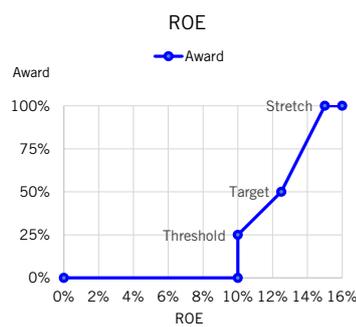
100% of the Performance rights granted in FY2020 have a 3 year Measurement period from 1 July 2019 – 30 June 2022.

iii. Performance criteria

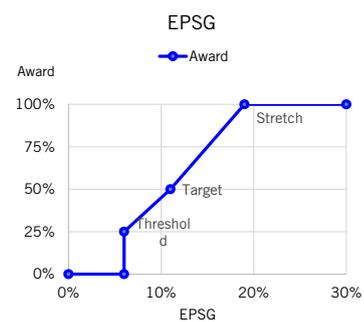
The performance criteria relating to the FY2020 grant of Performance rights to KMP are detailed below:



Indexed TSR = Austal TSR Premium to Market



ROE = NPAT / Equity (Excluding Reserves)



EPSG = CAGR EPS¹ (Base Year) to EPS (Final Year)

1. CAGR = Compound Annual Growth Rate

III. FY2021 performance rights grant

i. Performance rights grant

Performance rights granted to KMP in FY2021 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 2021 award opportunities on page 54.

Name	Rights granted			Total	Value @ grant date
	iTSR	ROE	EPG		
Fair Value per right	\$ 1.83	\$ 3.09	\$ 3.09	\$ 2.67	\$ 2.67
Mr Paddy Gregg	62,806	62,806	62,806	188,418	\$ 502,448
Mr Greg Jason	41,085	41,085	41,085	123,255	328,680
Mr Ian McMillan ¹	-	-	-	-	-
Mr Craig Perciavalle ²	88,493	88,493	88,492	265,478	707,941
Mr Rusty Murdaugh	20,715	20,715	20,714	62,144	165,717
Total	213,099	213,099	213,097	639,295	\$1,704,786

1. Mr Ian McMillan commenced 1 January 2021 and did not receive an LTI grant in FY2021

2. Mr Craig Perciavalle's FY2021 LTI grant was forfeited in accordance with his resignation on 22 February 2021

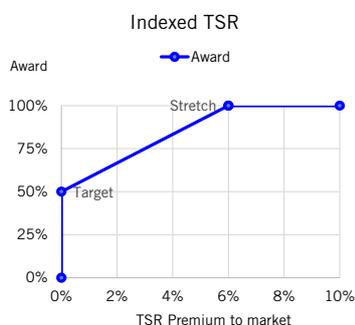
373,817 Performance rights were granted to KMP in FY2021, who were still employed by Austal and whose rights were not lapsed, forfeited or vested at 30 June 2021.

ii. Measurement period

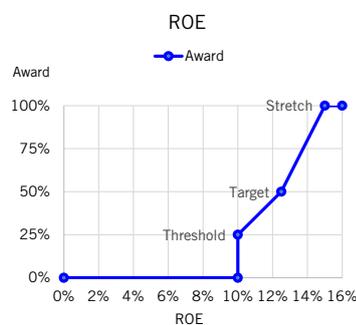
100% of the Performance rights granted in FY2021 have a 3 year Measurement period from 1 July 2020 – 30 June 2023.

iii. Performance criteria

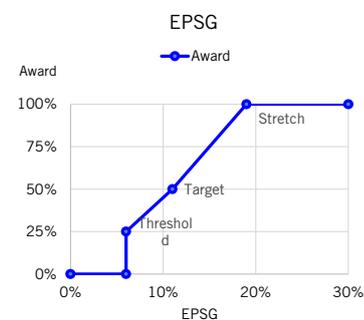
The performance criteria relating to the FY2021 grant of Performance rights to KMP are detailed below:



Indexed TSR = Austal TSR Premium to Market



ROE = NPAT / Equity (Excluding Reserves)



EPG = CAGR EPS¹ (Base Year) to EPS (Final Year)

1. CAGR = Compound Annual Growth Rate

IV. TFR share rights

Details of TFR share rights earned during the period and provided to KMP in FY2021 are shown below and further information is provided in Note 37.

These share rights are in lieu of TFR normally paid in cash and are not a bonus nor performance based. The measurement date for the share rights is the VWAP of the last 5 trading days of each month.

The share rights provided to Mrs Sarah Adam-Gedge, Mr Chris Indermaur and Mr Mick McCormack were approved by Shareholders during the 2020 Annual General Meeting. The share rights for Mr Giles Everist are provisional and will be subject to approval at the 2021 Annual General Meeting. Mr Giles Everist will be paid additional cash fees if the share rights are not approved by shareholders at the 2021 AGM.

<u>KMP</u>		<u>Earned</u>	<u>Average fair value per right</u>	<u>Fair value</u>
Mr Giles Everist	1	4,618	\$ 2.26	\$ 10,417
Mrs Sarah Adam-Gedge		10,479	2.62	27,500
Mr Chris Indermaur		9,524	2.62	25,000
Mr Mick McCormack	2	6,920	2.41	16,667

1. Mr Giles Everist recommenced the receipt of share rights in lieu of TFR from February 2021 because the value of his equity holding fell below the minimum requirement.
2. Mr Mick McCormack became a NED in September 2020 and commenced the receipt of share rights in November 2020.

V. Changes in equity held by KMP

i. Senior Executives

	Balance at 30 June 2020	FY2021 Movements						Balance at 30 June 2021
		Granted	Vested	Exercised	Lapsed / Forfeited	Bought (Sold)	Other ¹	
Mr David Singleton								
Vested								
Shares	1,222,721	-	-	1,455,889	-	-	(2,678,610)	-
Share Rights	1,222,192	-	-	(1,222,192)	-	-	-	-
Indeterminate Rights ²	106,251	127,446	-	(233,697)	-	-	-	-
Total	2,551,164	127,446	-	-	-	-	(2,678,610)	-
Unvested								
Performance Rights	-	-	-	-	-	-	-	-
Total	2,551,164	127,446	-	-	-	-	(2,678,610)	-
Mr Paddy Gregg								
Vested								
Shares	-	-	-	242,399	-	-	-	242,399
Share Rights	178,945	-	-	(178,945)	-	-	-	-
Indeterminate Rights ²	30,406	33,048	190,253	(63,454)	-	-	-	190,253
Total	209,351	33,048	190,253	-	-	-	-	432,652
Unvested								
Performance Rights	283,774	188,418	(190,253)	-	-	-	-	281,939
Total	493,125	221,466	-	-	-	-	-	714,591
Mr Greg Jason								
Vested								
Shares	262,887	-	-	287,592	-	(262,887)	-	287,592
Share Rights	206,759	-	-	(206,759)	-	-	-	-
Indeterminate Rights ²	36,664	44,169	220,958	(80,833)	-	-	-	220,958
Total	506,310	44,169	220,958	-	-	(262,887)	-	508,550
Unvested								
Performance Rights	325,114	123,255	(220,958)	-	-	-	-	227,411
Total	831,424	167,424	-	-	-	(262,887)	-	735,961
Mr Craig Perciavalle								
Vested								
Shares	201,310	-	-	236,811	-	-	(438,121)	-
Share Rights	236,811	-	-	(236,811)	-	-	-	-
Total	438,121	-	-	-	-	-	(438,121)	-
Unvested								
Performance Rights	528,411	265,478	-	-	(793,889)	-	-	-
Total	966,532	265,478	-	-	(793,889)	-	(438,121)	-
Mr Rusty Murdaugh								
Vested								
Shares	-	-	-	88,314	-	(44,157)	-	44,157
Share Rights	88,314	-	96,571	(88,314)	-	-	-	96,571
Total	88,314	-	96,571	-	-	(44,157)	-	140,728
Unvested								
Performance Rights	144,286	62,144	(96,571)	-	-	-	-	109,859
Total	232,600	62,144	-	-	-	(44,157)	-	250,587

1. Denotes the shares held by Mr David Singleton and Mr Craig Perciavalle at the time of their resignations, 31 December 2020 and 22 February 2021 respectively
2. Further information on Indeterminate rights is provided in the Executive KMP remuneration policy
3. Mr Ian McMillan did not have any equity holdings or movements during FY2021.

ii. Non-Executive Directors

	Balance at 30 June 2020	FY2021 Movements					Balance at 30 June 2021	
		Granted	Vested	Exercised	Lapsed / Forfeited	Bought (Sold)		Other ¹
Mr John Rothwell								
Vested								
Shares	32,307,692	-	-	-	-	454,000	-	32,761,692
Total	<u>32,307,692</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>454,000</u>	<u>-</u>	<u>32,761,692</u>
Mr Giles Everist								
Vested								
Shares	30,441	-	-	-	-	-	-	30,441
Share Rights	-	4,618	-	-	-	-	-	4,618
Total	<u>30,441</u>	<u>4,618</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>35,059</u>
Mrs Sarah Adam-Gedge								
Vested								
Shares	10,000	-	-	-	-	10,000	-	20,000
Share Rights	27,909	10,479	-	-	-	-	-	38,388
Total	<u>37,909</u>	<u>10,479</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,000</u>	<u>-</u>	<u>58,388</u>
Mr Chris Indermaur								
Vested								
Shares	-	-	-	-	-	-	-	-
Share Rights	13,741	9,524	-	-	-	-	-	23,265
Total	<u>13,741</u>	<u>9,524</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,265</u>
Mr Mick McCormack								
Vested								
Shares	-	-	-	-	-	100,000	-	100,000
Share Rights	-	6,920	-	-	-	-	-	6,920
Total	<u>-</u>	<u>6,920</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>100,000</u>	<u>-</u>	<u>106,920</u>

VI. Minimum equity holdings of KMP employed at 30 June 2021

Some KMP and all NED 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 2021		FY2021	Equity Holding % of TFR		Target
	Equiv't Shares	Value	TFR	30 Jun 2021	Target	Introduced
Value / share		\$ 2.05				
Executives						
Mr Paddy Gregg	432,652	\$ 886,937	\$ 692,500	128%	100%	Jan 2021
Mr Greg Jason	508,550	1,042,528	575,657	181%	50%	Sep 2017
Non-Executive Directors						
			Board Fees¹			
Mr John Rothwell	32,761,692	\$ 67,161,469	\$ 200,000	33581%	100%	Nov 2017
Mr Giles Everist	35,059	71,871	100,000	72%	100%	Nov 2017
Mrs Sarah Adam-Gedge	58,388	119,695	110,000	109%	100%	Nov 2017
Mr Chris Indermaur	23,265	47,693	100,000	48%	100%	Oct 2018
Mr Mick McCormack	106,920	219,186	80,000	274%	100%	Sep 2020

1. Includes Board Fees and excludes Committee Fees

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 NRC has recommended that the current practice of maintaining at least three independent NED on the Board should remain following the FY2021 review.

The Committee also undertook an annual review of the position of Chairman at Austal, in part because he is aged over 70 years. The Board (excluding the Chairman) unanimously agreed 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 and he was requested to remain as Chairman, to which he has agreed.

II. Details of contractual provisions for KMP

Name	Employer	Duration	Termination Notice Period		Termination Benefits ¹
			Group	Individual	
Mr David Singleton ²	Austal Limited	Unlimited	3 months	3 months	3 months
Mr Paddy Gregg	Austal Limited	Unlimited	3 months	3 months	3 months
Mr Greg Jason	Austal Limited	Unlimited	12 weeks	12 weeks	12 weeks
Mr Ian McMillan	Austal Ships Pty Ltd	Unlimited	3 months	3 months	3 months
Mr Craig Perciavalle ³	Austal USA LLC	Unlimited	None	None	None
Mr Rusty Murdaugh	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

2. Mr David Singleton resigned effective 31 December 2020 and was not paid a termination benefit.

3. Mr Craig Perciavalle resigned effective 22 February 2021 and was not paid a termination benefit

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

John Rothwell, the Chairman of Austal Limited, engaged Austal at arm's length in March 2021 to complete re-fit work on his private vessel at a cost of \$21,996 (excluding GST).

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. 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. GRG

GRG were engaged for the following services during FY2021:

- Benchmarking of remuneration for the incoming CEO, Mr Paddy Gregg (\$15,000 excluding GST).

ii. Korn Ferry

Korn Ferry were engaged for the following services during FY2021:

- Benchmarking for Senior Executive Team remuneration in FY2022 (\$78,000 excluding GST).

iii. Poynton Stavrianou

Poynton Stavrianou were engaged for the following services during FY2021:

- FY2022 LTI vesting targets (\$5,000 excluding GST).

iv. 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

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Perth WA 6000
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The Board of Directors
Austal Limited
100 Clarence Beach Rd
Henderson, WA
6166, Australia

23 August 2021

Dear Board Members,

Austal Limited

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

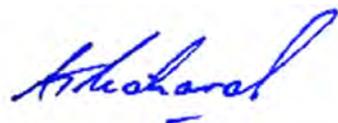
As lead audit partner for the audit of the financial statements of Austal Limited for the year ended 30 June 2021, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (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 sincerely,



DELOITTE TOUCHE TOHMATSU



A T Richards
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 2021

	Notes	2021 '000	2020 '000
Continuing operations			
Revenue	4	\$ 1,572,175	\$ 2,086,001
Cost of sales		(1,349,610)	(1,846,707)
Gross Profit		\$ 222,565	\$ 239,294
Other income and expenses	5	\$ 8,129	\$ 9,771
Administration expenses		(95,055)	(94,793)
Marketing expenses		(21,020)	(23,876)
Finance income	5	368	1,384
Finance costs	5	(7,745)	(8,267)
Profit / (loss) before income tax		\$ 107,242	\$ 123,513
Income tax benefit / (expense)	9	\$ (26,185)	\$ (34,535)
Profit / (loss) after tax		\$ 81,057	\$ 88,978
Other comprehensive income (OCI)			
Amounts that may subsequently be reclassified to profit and loss:			
Cash flow hedges			
- Net gain / (loss)		\$ 7,494	\$ 4,907
- Income tax benefit / (expense)		(1,830)	(1,474)
- Total		<u>\$ 5,664</u>	<u>\$ 3,433</u>
Foreign currency translations			
- Net gain / (loss)		\$ (53,216)	\$ 9,245
- Total		<u>\$ (53,216)</u>	<u>\$ 9,245</u>
Amounts not to be reclassified to profit and loss in subsequent periods:			
Asset revaluation reserve			
- Net gain / (loss)		\$ 26,117	\$ 42,556
- Income tax benefit / (expense)		(6,757)	(10,713)
- Total		<u>\$ 19,360</u>	<u>\$ 31,843</u>
Other comprehensive income for the period		\$ (28,192)	\$ 44,521
Total comprehensive income for the year		\$ 52,865	\$ 133,499
Earnings per share (\$ per share)			
Basic earnings per share	6	\$ 0.226	\$ 0.250
Diluted earnings per share	6	0.224	0.247

Consolidated statement of financial position as at 30 June 2021

	Notes	2021 '000	2020 ¹ '000
Assets			
Current			
Cash and cash equivalents	10	\$ 346,899	\$ 396,667
Inventories and work in progress ¹	4, 17	178,329	204,690
Trade and other receivables	15	138,282	144,217
Prepayments	16	11,588	11,444
Derivatives	28, 29	4,088	1,218
Income tax refundable	9	3,468	-
Assets held for sale	25	1,729	-
Total		\$ 684,383	\$ 758,236
Non - current			
Property, plant and equipment	20	\$ 644,210	\$ 610,199
Intangible assets and goodwill	22	37,571	22,192
Investment in joint venture	25, 34	-	1,729
Prepayments	16	3,203	-
Derivatives	28, 29	162	1,186
Right of use lease assets	21	55,993	9,736
Other financial assets	24	14,991	13,197
Other non-current assets	26	-	7,767
Deferred tax assets	9	9,002	4,757
Total		\$ 765,132	\$ 670,763
Total		\$ 1,449,515	\$ 1,428,999
Liabilities			
Current			
Interest bearing loans and borrowings	11	\$ (32,205)	\$ (8,719)
Progress payments received in advance ¹	4	(123,250)	(155,393)
Trade and other payables	18	(133,380)	(156,910)
Provisions	19	(98,824)	(80,132)
Derivatives	28, 29	(1,680)	(3,352)
Income tax payable	9	(689)	(259)
Lease liabilities	21	(4,635)	(2,627)
Deferred grant income	14	(2,968)	(3,232)
Total		\$ (397,631)	\$ (410,624)
Non - current			
Interest bearing loans and borrowings	11	\$ (114,999)	\$ (156,461)
Provisions	19	(2,376)	(2,521)
Derivatives	28, 29	(1,048)	(6,026)
Lease liabilities	21	(52,758)	(7,449)
Deferred grant income	14	(64,832)	(54,046)
Deferred tax liabilities	9	(41,833)	(43,129)
Total		\$ (277,846)	\$ (269,632)
Total		\$ (675,477)	\$ (680,256)
Net assets		\$ 774,038	\$ 748,743
Equity attributable to owners of the parent			
Contributed equity	13	\$ 141,666	\$ 135,340
Reserves		205,264	235,122
Retained earnings		427,108	378,281
Total		\$ 774,038	\$ 748,743

1. Classification of prior year Work in progress & Progress payments received in advance has been restated as described in Notes 4 & 17

Consolidated statement of changes in equity for the year ended 30 June 2021

	Issued Capital '000	Reserved Shares ¹ '000	Retained Earnings '000	Foreign Currency Transl'n Reserve '000	Employee Benefits Reserve '000	Cash Flow Hedge Reserve '000	Common Control Reserve '000	Asset Reval'n Reserve '000	Total Equity '000
Equity at 1 July 2019	\$ 131,836	\$ (1,266)	\$ 310,693	\$ 110,102	\$ 8,574	\$ (7,022)	\$ (17,594)	\$ 95,460	\$ 630,783
Comprehensive income									
Profit for the year	\$ -	\$ -	\$ 88,978	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 88,978
Other comprehensive income	-	-	-	9,245	-	3,433	-	31,843	44,521
Total	\$ -	\$ -	\$ 88,978	\$ 9,245	\$ -	\$ 3,433	\$ -	\$ 31,843	\$ 133,499
Other equity transactions									
Shares issued for dividend reinvestment plan	\$ 804	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 804
Dividends declared	-	-	(21,390)	-	-	-	-	-	(21,390)
Share based payments expense	-	-	-	-	4,599	-	-	-	4,599
Shares issued to employee share trust	1,861	(1,861)	-	-	-	-	-	-	-
Shares or proceeds transferred to beneficiaries	(1,096)	1,771	-	-	(675)	-	-	-	-
Shares issued for vested performance rights	3,291	-	-	-	(3,291)	-	-	-	-
Reclassification of long term incentives ²	-	-	-	-	751	-	-	-	751
Remeasurement gain on retirement benefits	-	-	-	-	(303)	-	-	-	(303)
Total	\$ 4,860	\$ (90)	\$ (21,390)	\$ -	\$ 1,081	\$ -	\$ -	\$ -	\$ (15,539)
Movement	\$ 4,860	\$ (90)	\$ 67,588	\$ 9,245	\$ 1,081	\$ 3,433	\$ -	\$ 31,843	\$ 117,960
Equity at 30 June 2020	\$ 136,696	\$ (1,356)	\$ 378,281	\$ 119,347	\$ 9,655	\$ (3,589)	\$ (17,594)	\$ 127,303	\$ 748,743
Adoption of new IFRIC Interpretation									
Change in accounting policy for Intangibles ³	\$ -	\$ -	\$ 135	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 135
Restated Equity at 1 July 2020	\$ 136,696	\$ (1,356)	\$ 378,416	\$ 119,347	\$ 9,655	\$ (3,589)	\$ (17,594)	\$ 127,303	\$ 748,878
Comprehensive income									
Profit for the year	\$ -	\$ -	\$ 81,057	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 81,057
Other comprehensive income	-	-	-	(53,216)	-	5,664	-	19,360	(28,192)
Total	\$ -	\$ -	\$ 81,057	\$ (53,216)	\$ -	\$ 5,664	\$ -	\$ 19,360	\$ 52,865
Other equity transactions									
Shares issued for dividend reinvestment plan	\$ 1,097	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,097
Dividends declared	-	-	(32,374)	-	-	-	-	-	(32,374)
Share based payments expense	-	-	-	-	3,017	-	-	-	3,017
Shares issued to employee share trust	9,440	(9,440)	-	-	-	-	-	-	-
Shares or proceeds transferred to beneficiaries	(4,675)	9,904	-	-	(5,229)	-	-	-	-
Shares issued for vested performance rights	-	-	-	-	-	-	-	-	-
Remeasurement gain on retirement benefits	-	-	-	-	546	-	-	-	546
Other	-	-	9	-	-	-	-	-	9
Total	\$ 5,862	\$ 464	\$ (32,365)	\$ -	\$ (1,666)	\$ -	\$ -	\$ -	\$ (27,705)
Movement	\$ 5,862	\$ 464	\$ 48,692	\$ (53,216)	\$ (1,666)	\$ 5,664	\$ -	\$ 19,360	\$ 25,160
Equity at 30 June 2021	\$ 142,558	\$ (892)	\$ 427,108	\$ 66,131	\$ 7,989	\$ 2,075	\$ (17,594)	\$ 146,663	\$ 774,038

1. Reserved shares are held in relation to an employee share trust.
2. Reclassification of FY2019 Indeterminate Rights to equity from provisions
3. Restatement of historical information as a result of the implementation of IFRIC Interpretation of SaaS. See note 2.

Consolidated statement of cash flows for the year ended 30 June 2021

	Notes	2021 '000	2020 '000
Cash flows from operating activities			
Receipts from customers (exclusive of GST)		\$ 1,588,133	\$ 2,165,269
Payments to suppliers and employees (exclusive of GST)		(1,450,018)	(1,982,563)
Income tax refunded / (paid)		(26,692)	(13,584)
Interest paid		(4,464)	(6,034)
Interest received	5	368	1,384
Net cash from / (used in) operating activities	7	<u>\$ 107,327</u>	<u>\$ 164,472</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	20	\$ (76,257)	\$ (16,700)
Payment for intangible assets	22	(895)	(1,661)
Proceeds from sale of property, plant and equipment		985	186
Acquisition of subsidiaries, net of cash acquired	33	(20,952)	-
Receipts of government infrastructure grants		12,069	-
Net cash from / (used in) investing activities		<u>\$ (85,050)</u>	<u>\$ (18,175)</u>
Cash flows from financing activities			
Dividends paid (net of dividend reinvestment program)		\$ (31,277)	\$ (20,586)
Principal component of lease payments		(7,585)	(6,010)
Repayment of borrowings	12	(7,265)	-
Payment of borrowing costs	12	(187)	(642)
Net cash from / (used in) financing activities		<u>\$ (46,314)</u>	<u>\$ (27,238)</u>
Net increase / (decrease) in cash and cash equivalents		<u>\$ (24,037)</u>	<u>\$ 119,059</u>
Cash and cash equivalents			
Cash and cash equivalents at beginning of year		\$ 396,667	\$ 275,665
Net increase / (decrease) in cash and cash equivalents		(24,037)	119,059
Net foreign exchange differences		(25,731)	1,943
Cash and cash equivalents at end of year	10	<u>\$ 346,899</u>	<u>\$ 396,667</u>

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 2021 was authorised for issue in accordance with a resolution of the Directors on 23 August 2021.

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 8 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 2021.

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 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:

Key accounting judgements and estimates	Note
Software as a Service	2
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
Share based payments	37

VI New and amended standards adopted by the Group

The nature and effect of changes as a result of the adoption of new accounting standards are described below. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

1. Implementation of Software as a Service

The Company revised its accounting policy in relation to upfront configuration and customisation costs incurred in implementing Software as a Service (SaaS) arrangements in response to the IFRIC (International Financial Reporting Interpretation Committee) agenda decision clarifying its interpretation of how current accounting standards apply to these types of arrangements. The new accounting policy is presented below.

Software-as-a-Service (SaaS) arrangements

SaaS arrangements are service contracts providing the Company with the right to access a cloud provider's application software over the contract period. Costs incurred to configure or customise, and the ongoing fees to obtain access to the cloud provider's application software, are recognised as operating expenses when the services are received. Some of these costs incurred are for the development of software code that enhances or modifies, or creates additional capability to, existing on premise systems and meets the definition of and recognition criteria for an intangible asset. These costs are recognised as intangible software assets and amortised over the useful life of the software on a straight-line basis. The useful lives of these assets are reviewed at least at the end of each financial year, and any change accounted for prospectively as a change in accounting estimate.

Key judgements on adoption

Note 22 (Intangible assets and goodwill) describes the entity's accounting policy in respect of customisation and configuration costs incurred in implementing SaaS arrangements. The directors made the following key judgements that may have the most significant effect on the amounts recognised in financial statements.

Capitalisation of configuration and customisation costs in SaaS arrangements

Part of the customisation and configuration activities undertaken in implementing SaaS arrangements may entail the development of software code that enhances or modifies, or creates additional capability to the existing on premise software to enable it to connect with the cloud-based software applications (referred to as bridging modules or Application Programming Interfaces (API)). Judgement was applied in determining whether the additional code meets the definition of and recognition criteria for an intangible asset in AASB 138 Intangible Assets. The Company did not recognise any amounts as intangible assets in respect of customisation and configuration costs incurred in implementing SaaS arrangements.

Determination whether configuration and customisation services are distinct from the SaaS access

Costs incurred to configure or customise the cloud provider's application software are recognised as operating expenses when the services are received. In a contract where the cloud provider provides both the SaaS configuration and customisation, and the SaaS access over the contract term, the directors applied judgement to determine whether these services are distinct from each other or not, and therefore, whether the configuration and customisation costs incurred are expensed as the software is configured or customised (i.e. upfront), or over the SaaS contract term. Specifically, where the configuration and customisation activities significantly modify or customise the cloud software, these activities will not be distinct from the access to the cloud software over the contract term. Judgement has been applied in determining whether the degree of customisation and modification of the cloud-based software would be deemed significant. The Company recognised \$3.203 million as Prepayments during the year (of which \$1.334 million was included in capital work in progress as at 30 June 2020) in respect of licence fees and customisation and configuration activities undertaken in implementing SaaS arrangements which are considered not to be distinct from the access to the SaaS access over the contract term.

Retrospective restatement

The Company revised its accounting policy in relation to SaaS arrangements during the year resulting from the implementation of agenda decisions issued by the IFRIC. Opening retained earnings at 1 July 2020 have been restated by \$0.135 million to recognise the change of accounting policy.

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:

- Insurance Contracts - AASB 17 Insurance Contracts and AASB 2020-5 Amendments to Australian Accounting Standards
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - AASB 2014-10 Amendments to Australian Accounting Standards
- Effective Date of Amendments to AASB 10 and AASB 128 - AASB 2015-10 Amendments to Australian Accounting Standards
- Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections - AASB 2017-5 Amendments to Australian Accounting Standards
- Classification of Liabilities as Current or Non-Current - AASB 2020-1 Amendments to Australian Accounting Standards
- Classification of Liabilities as Current or Non-current - Deferral of Effective Date - AASB 2020-6 Amendments to Australian Accounting Standards
- Annual Improvements 2018-2020 and Other Amendments - AASB 2020-3 Amendments to Australian Accounting Standards
- Interest Rate Benchmark Reform - Phase 2 - AASB 2020-8 Amendments to Australian Accounting Standards
- Disclosure of Accounting Policies and Definition of Accounting Estimates - AASB 2021-2 Amendments to Australian Accounting Standards
- COVID-19-Related Rent Concessions beyond 30 June 2021 - AASB 2021-3 Amendments to Australian Accounting Standards

Current year performance

Note 3 Operating segments

I Disclosures

	USA			Australasia			Elimination /		Total
	Ships '000	Support '000	Total '000	Ships '000	Support '000	Total '000	Unallocated '000	Adjustments '000	
Year ended 30 June 2021									
Revenue									
External customers	\$ 1,012,983	\$ 163,621	\$ 1,176,604	\$ 301,779	\$ 93,660	\$ 395,439	\$ -	\$ 132	\$ 1,572,175
Inter-segment ¹	-	-	-	8,276	2,121	10,397	-	(10,397)	-
Total	\$ 1,012,983	\$ 163,621	\$ 1,176,604	\$ 310,055	\$ 95,781	\$ 405,836	\$ -	\$ (10,265)	\$ 1,572,175
Profit / (loss) before tax									
Earnings before interest and tax	\$ 105,396	\$ 26,257	\$ 131,653	\$ 16,020	\$ 1,288	\$ 17,308	\$ (34,136)	\$ (206)	\$ 114,619
Finance income	-	-	-	-	-	-	368	-	368
Finance expenses	-	-	-	-	-	-	(7,745)	-	(7,745)
Profit / (loss) before income tax	\$ 105,396	\$ 26,257	\$ 131,653	\$ 16,020	\$ 1,288	\$ 17,308	\$ (41,513)	\$ (206)	\$ 107,242
Depreciation and amortisation	\$ (19,239)	\$ (2,942)	\$ (22,181)	\$ (17,110)	\$ (5,269)	\$ (22,379)	\$ (1,147)	\$ -	\$ (45,707)
Balance sheet									
Segment assets	\$ 865,801	\$ 150,717	\$ 1,016,518	\$ 286,085	\$ 93,374	\$ 379,459	\$ 55,538	\$ (2,000)	\$ 1,449,515
Segment liabilities	(383,615)	(20,031)	(403,646)	(169,547)	(62,850)	(232,397)	(53,515)	14,081	(675,477)

	USA			Australasia			Elimination /		Total
	Ships '000	Support '000	Total '000	Ships '000	Support '000	Total '000	Unallocated '000	Adjustments '000	
Year ended 30 June 2020									
Revenue									
External customers	\$ 1,310,747	\$ 293,017	\$ 1,603,764	\$ 415,075	\$ 67,141	\$ 482,216	\$ -	\$ 21	\$ 2,086,001
Inter-segment ¹	-	-	-	10,945	3,613	14,558	-	(14,558)	-
Total	\$ 1,310,747	\$ 293,017	\$ 1,603,764	\$ 426,020	\$ 70,754	\$ 496,774	\$ -	\$ (14,537)	\$ 2,086,001
Profit / (loss) before tax									
Earnings before interest and tax	\$ 106,802	\$ 16,868	\$ 123,670	\$ 17,839	\$ 13,047	\$ 30,886	\$ (23,727)	\$ (433)	\$ 130,396
Finance income	-	-	-	-	-	-	1,384	-	1,384
Finance expenses	-	-	-	-	-	-	(8,267)	-	(8,267)
Profit / (loss) before income tax	\$ 106,802	\$ 16,868	\$ 123,670	\$ 17,839	\$ 13,047	\$ 30,886	\$ (30,610)	\$ (433)	\$ 123,513
Depreciation and amortisation	\$ (21,842)	\$ (5,388)	\$ (27,230)	\$ (15,765)	\$ (1,250)	\$ (17,015)	\$ (1,498)	\$ -	\$ (45,743)
Balance sheet									
Segment assets ²	\$ 828,554	\$ 210,209	\$ 1,038,763	\$ 232,765	\$ 89,086	\$ 321,851	\$ 77,890	\$ (9,505)	\$ 1,428,999
Segment liabilities ²	(383,495)	(32,416)	(415,911)	(168,504)	(38,589)	(207,093)	(57,252)	-	(680,256)

1. Inter-segment revenues, investments, receivables and payables are eliminated on consolidation.
2. Restatement of prior period WIP. See Note 4.

	2021	2020
	'000	'000
Group Revenue from external customers		
By geographical location of customers		
North America	\$ 1,176,604	\$ 1,603,764
Europe	70,056	131,240
Australia	247,482	158,085
Asia	5,256	55,013
South and Central America	58,043	132,346
Middle East	2,203	2,981
Africa	12,531	2,572
Total	<u>\$ 1,572,175</u>	<u>\$ 2,086,001</u>
	2021	2020
	'000	'000
Analysis of unallocated		
Profit / (loss) before tax		
Administration expenses	\$ (22,814)	\$ (20,271)
Marketing expenses	(14,486)	(12,746)
Research and development credits	3,278	9,314
Foreign exchange gains / (losses)	(114)	(24)
Finance expenses	(7,745)	(8,267)
Finance income	368	1,384
Total	<u>\$ (41,513)</u>	<u>\$ (30,610)</u>
Segment assets		
Cash	\$ 36,512	\$ 63,690
Other non-current assets ¹	-	7,767
Deferred tax assets	8,561	4,757
Other receivables	2,350	172
Income tax receivable	-	1
Other	8,115	1,503
Total	<u>\$ 55,538</u>	<u>\$ 77,890</u>
Segment liabilities		
Deferred tax liabilities	\$ (39,281)	\$ (43,129)
Creditors and provisions	(14,234)	(14,123)
Total	<u>\$ (53,515)</u>	<u>\$ (57,252)</u>

1. Balance relates to research and development (R&D) credits. Further information is provided in Note 26.

	2021	2020
	'000	'000
	<u> </u>	<u> </u>
Group Non-current assets ¹		
Geographical location		
North America	\$ 509,211	\$ 480,861
Australia	161,614	98,796
Asia	66,949	62,470
Total	<u>\$ 737,774</u>	<u>\$ 642,127</u>
Composition		
Property, plant and equipment	\$ 644,210	\$ 610,199
Intangible assets	37,571	22,192
Right of use lease assets	55,993	9,736
Total	<u>\$ 737,774</u>	<u>\$ 642,127</u>

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

2. USA Support

The USA provides training and on-going support and maintenance of Austal and non-Austal vessels to the US Navy.

3. Australasia Shipbuilding

The Australasia Shipbuilding segment comprises Austal's Australia, Philippines, Vietnam and China 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 and Oman 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

	2021	2020
	'000	'000
Revenue		
Shipbuilding	\$ 1,314,894	\$ 1,725,843
Support	257,281	360,158
Total	<u>\$ 1,572,175</u>	<u>\$ 2,086,001</u>

II Recognition and measurement

1. Vessel construction

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

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.

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.

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 contracts

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:

- Prospectively as an additional, separate contract;
- Prospectively as a termination of the existing contract and creation of a new contract; or
- 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.

2. Vessel support

Vessel support revenue

Revenue from support contracts is recognised in the Profit and Loss statement when the performance obligations are considered to have been met. Revenue is recognised at an amount that reflects the consideration the Group expects to be entitled to receive, net of goods and services tax or similar tax.

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 was leasing them to the RAN for an initial 3 year term which was subsequently extended to April 2022 for CCPB 9 and May 2022 for CCPB 10. The total residual value will be \$24.335 million in May 2022.

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 \$9.948 million was reported in FY2021 (FY2020: \$9.381 million).

Further information is provided in Note 11.

III Remaining performance obligations [work in hand]

The transaction price allocated to remaining performance obligations (unsatisfied or partially satisfied) at 30 June 2021 is set out below:

Transaction price allocated to remaining performance obligations pursuant to customer contracts

	2021 '000	2020 '000
Committed but not recognised as liabilities payable:		
- Within one year	\$ 1,307,089	\$ 1,657,917
- One to five years	1,217,064	2,593,180
Total	<u>\$ 2,524,153</u>	<u>\$ 4,251,097</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

	2021 '000	2020 ¹ '000
Net carrying amount		
Work in progress	\$ 171,605	\$ 199,026
Progress payments received in advance	(123,250)	(155,393)
Total due from / (to) customers	<u>\$ 48,355</u>	<u>\$ 43,633</u>

1. Restatement of prior year balances as outlined below.

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 \$119.735 million recognised in the current period was included in the progress payments received in advance (PPIA) balance at the beginning of the period (FY2020: \$134.943 million).

2. Restatement of prior period

The FY2020 prior period balances for work in progress (WIP) and PPIA have been restated by an equal and opposite amount of \$60.891 million because USA was previously reported based on the net segment position whereas it has now been reclassified on the basis of each performance obligation. This change has no impact on prior year Net Assets, EBIT, NPAT nor EPS.

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 has continued to improve however risks exist for the remaining vessels until future events become known such as continued achievement of productivity improvements, future overhead rates which are directly impacted by the volume and timing of future contract awards and other vessel specific risks. Vessel specific risks include vessel weight and associated financial penalties, achievement of progress milestones, adherence to launch schedules, sea trials performance and remediation of trial issues, and adherence to delivery schedules.

USA applies a consistent methodology for setting a contingency for each vessel which includes allocating the contingency to these risks and milestones. Contingencies held for undelivered LCS and EPF at 30 June 2021 was \$149 million (FY2020: \$209 million). This was equivalent to 9.5% of the Total Cost Estimate to Completion (ETC) (FY2020: 7.4%). This takes into account the potential for reductions in vessel prices that may arise through the risk sharing mechanism embedded in those US Navy shipbuilding programs if the cost contingencies are ultimately not required.

A contingency ranging between \$0.3 million and \$15 million was held for each LCS and EPF that had already been delivered but were not contractually closed at balance date. The total contingencies for delivered vessels was \$21 million (FY2020: \$20 million).

The consistent application of the contingency methodology and forecast overhead rates resulted in a forecast EBIT loss at completion of \$(10.169) million for the last LCS which was ~ 20% complete at 30 June 2021. The EBIT loss has been recognised in the FY2021 financial accounts in accordance with the accounting standards which includes the recognition of an \$(8.277) million onerous contract provision at 30 June 2021 which is disclosed within Note 19 Provisions.

Significant design modifications were introduced on LCS 28 which was delivered in June 2021. Cost performance for LCS 28 was good however it is the first vessel with substantial modifications and completion of the second vessel, LCS 30, will inform judgments about ongoing risk and cost trends, and appropriate levels of contingency to be maintained for remaining vessels.

Austal is planning to undertake a reassessment of contingencies associated with LCS 30 – 38 upon the completion of LCS 30 around mid FY2022. A further re-assessment of contingencies is expected to occur after the scheduled delivery of LCS 34, during FY2023.

Future judgments about the appropriate level of contingencies to be held for each vessel could result in an increase or decrease in the profit recognised on relevant vessels in FY2022 and future reporting periods, including the reversal of previously booked onerous contract provisions.

Australasia

Australasia is completing a number of vessels under both single vessel and 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 2021 for undelivered vessels in the Australasia business unit were \$14 million (FY2020: \$26 million). This was equivalent to 3.6% of ETC (FY2020: 4.9%).

Note 5 Other profit and loss

I Disclosure

	2021 '000	2020 '000
Other income and expenses		
Government infrastructure grants amortised	\$ 3,340	\$ 6,587
Training reimbursement grants	295	3,047
Sale of scrap materials	2,705	3,023
Sundry income	2,836	2,512
Vessel warranties	942	(5,107)
Gain / (loss) on disposal of property, plant and equipment	(1,314)	(147)
Net foreign exchange gain / (loss)	(675)	(144)
Total	<u>\$ 8,129</u>	<u>\$ 9,771</u>
Finance income		
Finance income	\$ 368	\$ 1,384
Finance costs		
Interest payable to unrelated parties	\$ (6,871)	\$ (7,543)
Amortisation of capitalised loan origination costs	(874)	(724)
Total	<u>\$ (7,745)</u>	<u>\$ (8,267)</u>
Net finance costs	<u>\$ (7,377)</u>	<u>\$ (6,883)</u>
Depreciation and amortisation		
Depreciation of property, plant & equipment	\$ (38,257)	\$ (37,188)
Depreciation of right of use assets	(4,854)	(5,723)
Amortisation of intangible assets	(2,596)	(2,832)
Total	<u>\$ (45,707)</u>	<u>\$ (45,743)</u>
Employee benefits ¹		
Wages and salaries	\$ (382,246)	\$ (449,966)
Annual leave expense	(25,526)	(27,308)
Post-retirement benefits	(10,178)	(10,434)
Workers' compensation costs	(4,337)	(4,561)
Share based payments expense	(3,017)	(4,599)
Long service leave expense	(2,590)	(1,771)
Total	<u>\$ (427,894)</u>	<u>\$ (498,639)</u>
Research and development credits ²		
Research and development credits	\$ 7,705	\$ 11,103

1. Disclosed within cost of sales and administrative expenses

2. Disclosed within cost of sales

	<u>2021</u>	<u>2020</u>
Auditors' remuneration ¹		
Amounts received or due and receivable by Deloitte Touche Tohmatsu Australia and related network firms for:		
Audit or review of the financial statements		
Group	\$ (387,750)	\$ (255,136)
Controlled entities	(825,797)	(976,196)
Total	<u>\$ (1,213,547)</u>	<u>\$ (1,231,332)</u>
Other assurance services	\$ (7,500)	\$ (7,500)
Non-audit services		
Taxation advice and compliance services	\$ (196,861)	\$ (258,199)
Consulting services	(8,030)	(32,491)
Total	<u>\$ (204,891)</u>	<u>\$ (290,690)</u>
Total	<u>\$ (1,425,938)</u>	<u>\$ (1,529,522)</u>
Other auditors and firms:		
Audit or review of the financial reports		
Subsidiaries	\$ (23,841)	\$ (41,604)
Non-audit services		
Taxation advice and compliance services	\$ (25,407)	\$ (13,978)
Consulting services	-	-
Total	<u>\$ (25,407)</u>	<u>\$ (13,978)</u>
Total	<u>\$ (49,248)</u>	<u>\$ (55,582)</u>

1. The portion of the auditor's remuneration payable in USD was converted at a USD / AUD exchange rate of 0.7472 in FY2021 (FY2020: 0.6710).

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

R&D tax credit incentives are accounted for in accordance with the Group's accounting policies as a Government grant under AASB 120 rather than as an income tax benefit under AASB 112.

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 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 FY2021 was \$7.705 million (FY2020: \$11.103 million).

The future tax benefit of carry forward R&D credits 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 FY2021.

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>2021</u>	<u>2020</u>
Net profit / (loss) after tax			
Net profit attributable to ordinary equity holders of the parent	\$'000	\$ 81,057	\$ 88,978
Weighted average number of ordinary shares			
Basic	Number	359,410,147	356,243,475
Effect of dilution	Number	2,109,432	4,568,163
Diluted	Number	<u>361,519,579</u>	<u>360,811,638</u>
Earnings per share			
Basic earnings per share	\$ / share	\$ 0.226	\$ 0.250
Diluted earnings per share	\$ / share	\$ 0.224	\$ 0.247

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.

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 2,453,164 performance rights that were potentially dilutive at 30 June 2021. The dilutionary impact of these rights included in the determination of diluted EPS is 1,998,483 shares.

Further information relating to the performance rights is provided in Note 37.

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 37.

3. Service Rights

Service rights are included in the determination of diluted EPS. Further information relating to the share rights is provided in Note 37.

4. Other equity transactions

Austral issued 2,849,566 shares to the Employee Share trust during August 2020 in relation to the vesting of the FY2018 LTI plan 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

	2021 <u>'000</u>	2020 <u>'000</u>
Net profit / (loss) after tax	\$ 81,057	\$ 88,978
Adjustments for non cash profit and loss items:		
Depreciation and amortisation	\$ 45,707	\$ 45,743
Net (gain) / loss on disposal of property, plant and equipment	1,314	147
Share based payments expense	3,017	4,599
Net foreign exchange differences	304	140
CCPB 9 & 10 notional charter income	(9,948)	(9,381)
CCPB 9 & 10 notional interest expense	2,407	1,509
Amortisation of borrowing costs	874	724
Research and development tax credits recognised	(7,705)	(11,103)
Non-cash mark to market revaluations	(1,702)	(2,333)
Total	<u>\$ 34,268</u>	<u>\$ 30,045</u>
Changes in assets and liabilities:		
Increase / (decrease) in income tax (current and deferred)	\$ (8,579)	\$ 20,951
(Increase) / decrease in provisions	18,547	(5,103)
(Increase) / decrease in trade and other receivables	5,948	86,012
(Increase) / decrease in inventories and work in progress	26,542	28,698
(Increase) / decrease in prepayments	(3,347)	(2,074)
(Increase) / decrease in other financial assets	(1,808)	(1,098)
Increase / (decrease) in trade and other payables	(23,680)	(49,271)
Increase / (decrease) in progress payments in advance	(32,144)	(26,078)
Increase / (decrease) in government grants	10,523	(6,588)
Total	<u>\$ (7,998)</u>	<u>\$ 45,449</u>
Net cash inflow / (outflow) from operating activities	<u>\$ 107,327</u>	<u>\$ 164,472</u>

Note 8 Dividends paid and proposed

I Dividends on ordinary shares

	2021 '000	2020 '000
Dividends paid on ordinary shares		
Unfranked final dividend for the prior year, 5 cps (2020: unfranked, 3 cps)	\$ (17,978)	\$ (10,693)
Unfranked interim dividend for the current year, 4 cps (2020 unfranked, 3 cps)	(14,396)	(10,697)
Total	<u>\$ (32,374)</u>	<u>\$ (21,390)</u>
Dividend declared subsequent to the reporting period end (not recorded as liability)		
Unfranked final dividend for the current year 4 cps (2020: unfranked, 5 cps)	\$ (14,396)	\$ (17,835)

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

	2021 '000	2020 '000
Opening balance	\$ 1,170	\$ 1,170
Franking credits distributed	\$ -	\$ -
Franking credits movement from the payment / (refund) of income tax	(673)	-
Franking credits from acquisition of subsidiaries	2,469	-
Movement	<u>\$ 1,796</u>	<u>\$ -</u>
Closing balance	<u>\$ 2,966</u>	<u>\$ 1,170</u>

Note 9 Income and other taxes

I Income tax expense

	2021 '000	2020 '000
Major components of tax (expense) / benefit are:		
Consolidated profit and loss		
		1.
Current income tax		
Current income tax charge	\$ (38,453)	\$ (32,693)
Adjustments in respect of current income tax of the previous year	1,514	(1,765)
Total	<u>\$ (36,939)</u>	<u>\$ (34,458)</u>
Deferred income tax		
Relating to origination and reversal of temporary differences	\$ 10,826	\$ (661)
Adjustments in respect of deferred income tax of the previous year	(72)	584
Total	<u>\$ 10,754</u>	<u>\$ (77)</u>
Total income tax (expense) / benefit	<u>\$ (26,185)</u>	<u>\$ (34,535)</u>
Other comprehensive income (OCI)		
Current and deferred income tax related items charged or credited directly to OCI		
Current and deferred gains and losses on foreign currency contracts	\$ (1,830)	\$ (1,474)
Deferred gains on revaluation of property, plant and equipment	(6,757)	(10,713)
Total income tax (expense) / benefit charged to OCI	<u>\$ (8,587)</u>	<u>\$ (12,187)</u>
A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:		
Accounting profit / (loss) before income tax from continuing operations	\$ 107,242	\$ 123,513
Income tax at the Group's statutory income tax rate of 30% (2020: 30%)	\$ (32,173)	\$ (37,054)
USA combined federal and state income tax rate of 25.4% (FY2020 : 25.4%)	\$ 3,538	\$ 3,702
Philippines gross income tax (GIT) regime	309	1,218
Other foreign tax rate differences	1	191
USA revalue deferred balances for change in weighted average state rate	1,151	434
Non-assessable R&D credits in cost of sales	2,122	3,328
Carry forward tax losses in other tax jurisdictions not recognised	(160)	(39)
Transfer pricing adjustments in respect of intercompany royalties	(2,679)	(2,907)
Valuation of share based payments	1,774	(1,134)
Other non-assessable or non-deductible items	(1,147)	(634)
Non-deductible capital expenses	(363)	(459)
Adjustments in respect of current and deferred income tax of the previous year	1,442	(1,181)
Total Adjustments	<u>\$ 5,988</u>	<u>\$ 2,519</u>
Income tax (expense) / benefit reported in the profit and loss	<u>\$ (26,185)</u>	<u>\$ (34,535)</u>
Income tax receivable / (payable)		
Income tax receivable	\$ 3,468	\$ -
Income tax (payable)	(689)	(259)

1. Reflects a reallocation of \$18.641 million between current income tax and deferred income tax to align presentation with the current year presentation.

II Analysis of temporary differences

	Statement of Financial Position		Movement in Profit and Loss ¹	
	2021 '000	2020 '000	2021 '000	2020 '000
Deferred income tax - USA				
Deferred tax assets				
Deferred grant income	\$ 17,213	\$ 14,520	\$ 3,867	\$ (1,725)
Payables	5,309	5,845	(72)	(37)
Trade and Other Receivables	1,276	-	1,282	-
Provisions	4,460	4,606	228	1,247
Deferred gains and losses on foreign currency contracts	503	2,202	-	(7)
Facility lease	38	45	(3)	46
Losses available for offset against future taxable income	25	34	(6)	-
Other	-	56	(52)	58
Total	\$ 28,824	\$ 27,308	\$ 5,244	\$ (418)
Deferred tax liabilities				
Property, plant and equipment	\$ (65,496)	\$ (65,550)	\$ 1,950	\$ 3,070
Work in progress	(4,298)	(3,706)	(891)	(661)
Intangibles	(732)	(876)	75	80
Payables	(65)	(305)	-	-
Deferred gains and losses on foreign currency contracts	(66)	-	-	(3)
Total	\$ (70,657)	\$ (70,437)	\$ 1,134	\$ 2,486
Net deferred tax asset / (liability)	\$ (41,833)	\$ (43,129)	\$ 6,378	\$ 2,068
Deferred income tax - Australia				
Deferred tax assets				
Provisions	\$ 12,184	\$ 8,587	\$ 3,598	\$ 573
Payables	419	512	(74)	177
Cash	579	394	184	(117)
Deferred gains and losses on foreign currency contracts	225	207	-	-
Facility lease	211	8	203	8
CCPB 9 & 10	7	(27)	34	(433)
Work in progress	-	-	-	(2,820)
Other	341	258	57	38
Total	\$ 13,966	\$ 9,939	\$ 4,002	\$ (2,574)
Deferred tax liabilities				
Property, plant and equipment	\$ (2,613)	\$ (4,518)	\$ 1,598	\$ 253
Deferred gains and losses on foreign currency contracts	(1,345)	(721)	-	-
Prepayments	(961)	-	(961)	-
Other	(215)	(389)	-	-
Total	\$ (5,134)	\$ (5,628)	\$ 637	\$ 253
Net deferred tax asset / (liability)	\$ 8,832	\$ 4,311	\$ 4,639	\$ (2,321)
Deferred income tax - Other				
Deferred tax assets	\$ 170	\$ 477	\$ (263)	\$ 166
Deferred tax liabilities	-	(31)	-	10
Net deferred tax asset / (liability)	\$ 170	\$ 446	\$ (263)	\$ 176
Net deferred tax asset / (liability)	\$ (32,831)	\$ (38,372)	\$ 10,754	\$ (77)

1. Reflects a reclassification of \$18.641 million between current income tax and deferred income tax to align presentation with the current year presentation.

III Austal Group Tax Strategy

Austal's Group Tax Strategy has been endorsed by Austal's Audit & Risk Committee (ARC). 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 Audit & Risk Committee.

2. Tax principles

Austal's approach to tax is that 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 and 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.

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

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

6. UK specific comments

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

7. Assurance regimes with tax authorities

Austal was included in the Australian Tax Office's (ATO) Top 1,000 Combined Assurance Program, which is a program established by the ATO to obtain greater assurance from large public and multinational companies in Australia on tax risk management and compliance.

The ATO commenced its review of Austal in September 2020 covering the corporate tax period FY2016 - FY2019 and the GST period FY2020. The pricing of intercompany royalties was excluded from the scope of review because of the ongoing MAP and BAPA processes. The ATO issued its findings in June 2021.

Austal received a 'High' overall level of assurance because the ATO stated that it obtained confidence that Austal paid the right amount of income tax for the review period, through Austal's engagement during the review.

The ATO stated that it did not select Austal for a Top 1,000 GST assurance review after increasing its understanding of Austal's GST risk profile through the review.

Austal has not been notified of assurance reviews in the other tax jurisdictions it operates in FY2021.

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% and the weighted average of individual US states in which Austal operates was 4.4% for FY2021. 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 entered into 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 for 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 2021 were:

	2021	2020
	'000	'000
Unrecognised Australian tax losses (tax effected values)		
Opening balance	\$ 5,519	\$ 5,714
True-up of prior year tax losses	\$ 1	\$ (195)
Losses incurred / (utilised) in the current year	-	-
Total	\$ 1	\$ (195)
Closing balance	\$ 5,520	\$ 5,519

The future tax benefit of carried forward research and development credits are recognised in Other Non-Current Assets in accordance with the Group's accounting policy of recognising research and development credits as government grants under AASB 120 Government Grants.

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.

The Competent Authorities of Australia and the United States of America have 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 currently 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 2021 was \$(21.1) million (FY2020: \$(18.3) million).

\$(7.6) million (FY2020: \$(7.6) million) of the \$(21.1) million has been paid in cash in periods up to and including FY2021.

The remaining \$(13.5) million (FY2020: \$(10.7) million) has not had a cash impact in all years up to 30 June 2021, 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.

The negative cash impact will be realised in future tax years if no double tax relief is realised because less carry forward tax losses and / or R&D credits will be available to offset future tax liability.

VII 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.

Cash flows are included in the statement of cash flows on a gross profit basis and the GST or VAT component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the relevant taxation authority, are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST or VAT recoverable from, or payable to, the relevant taxation authority.

Capital structure

Note 10 Cash and cash equivalents

I Net carrying amount

	2021 <u>'000</u>	2020 <u>'000</u>
Cash		
Cash at bank and in hand	\$ 346,899	\$ 396,667
Total	<u>\$ 346,899</u>	<u>\$ 396,667</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

	2021 <u>'000</u>	2020 <u>'000</u>
Current		
Vessel finance for CCPB 9 & 10	\$ (32,205)	\$ (8,719)
Total	<u>\$ (32,205)</u>	<u>\$ (8,719)</u>
Non - current		
Go Zone Bonds	\$ (114,999)	\$ (124,255)
Vessel finance for CCPB 9 & 10	-	(32,206)
Total	<u>\$ (114,999)</u>	<u>\$ (156,461)</u>
Total	<u>\$ (147,204)</u>	<u>\$ (165,180)</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 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 is leasing CCPB 9 to the RAN until April 2022 and CCPB 10 to the RAN until May 2022. The contract contains a put option granting NAB the right to sell the vessels back to Austal for \$24.335 million at the end of the lease term. The notional effective interest rate incurred in FY2021 was 3.19% (FY2020: 3.19%). Austal expects that the RAN will extend the leases beyond April and May 2022 during FY2022.

IV Go Zone Bonds (GZB)

The 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 and FY2013.

GZB are tax-exempt bonds in the United States and attracted an average interest rate of 0.10% in FY2021 (FY2020: 1.23%). The interest rates on Go Zone Bonds are reset on a weekly basis. GZB bondholders are secured by letters of credit issued under Austal's Syndicated Facility Agreement. The average cost of the letters of credit in FY2021 was 1.54% (FY2020: 1.54%).

The letters of credit mature in November 2022 and all of the GZB debt is classified as non-current at 30 June 2021. Austal is in the process of seeking an extension to the maturity date to restore 3 years of tenor from the date of extension.

Austal has redeemed a cumulative amount of US\$137 million and owed US\$87.5 million at 30 June 2021 (FY2020 US\$87.5 million). No GZB amounts were redeemed (repaid) during FY2021. 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.

V Revolving credit facility – Cash Loans

	<u>2021</u> <u>'000</u>	<u>2020</u> <u>'000</u>
Revolving credit facility - cash loans		
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 has a Syndicated Facility Agreement with a \$280.000 million revolving credit facility (RCF). The RCF has a \$50.000 million cash loan sub limit. The Syndicated Facility Agreement matures in November 2022. Austal is in the process of seeking an extension to the maturity date to restore 3 years of tenor from the date of extension.

VI Performance guarantees [bonding] facilities

	<u>2021</u> <u>'000</u>	<u>2020</u> <u>'000</u>
Total facilities available		
Revolving credit facility	\$ 280,000	\$ 280,000
Surety facilities	250,000	250,000
Total	<u>\$ 530,000</u>	<u>\$ 530,000</u>
Facilities used at reporting date		
Revolving credit facility	\$ (162,161)	\$ (222,695)
Surety facilities	(22,810)	(243,658)
Total	<u>\$ (184,971)</u>	<u>\$ (466,353)</u>
Facilities unused at reporting date		
Revolving credit facility	\$ 117,839	\$ 57,305
Surety facilities	227,190	6,342
Total	<u>\$ 345,029</u>	<u>\$ 63,647</u>

Any unused portion of the entire \$280.000 million RCF can be used for non-financial performance guarantees, up to \$20.000 million of any unused portion can be used for financial performance guarantees, and up to \$50.000 million of any unused portion can be used for cash loans as described above.

Contingent non-financial performance guarantees are issued to support concepts such as refund payment guarantees, performance bonds and warranty bonds.

Austal had a total of \$420.000 million of uncommitted and unsecured Surety facilities at 30 June 2021.

Only \$250.000 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

	30 June 2020 '000	Cash charges		Non-cash changes						30 June 2021 '000
		Debt Repay / (Draw) '000	Payment of borrowing costs '000	Debt acquired from business combination '000	Reclassification of finance leases '000	CCPB 9 & 10 Debt Reduction ¹ '000	Foreign exchange movement '000	Amortisation of borrowing costs '000	Reclassification '000	
Current borrowings	\$ (8,719)	\$ 7,265	\$ -	\$ (7,265)	\$ -	\$ 8,719	\$ -	\$ -	\$ (32,205)	\$ (32,205)
Non-current borrowings	(156,461)	-	187	-	-	-	9,944	(874)	32,205	(114,999)
Total financing liabilities	\$ (165,180)	\$ 7,265	\$ 187	\$ (7,265)	\$ -	\$ 8,719	\$ 9,944	\$ (874)	\$ -	\$ (147,204)
		Cash charges		Non-cash changes						
	30 June 2019 '000	Debt Repay / (Draw) '000	Payment of borrowing costs '000	Debt acquired from business combination '000	Reclassification of finance leases '000	CCPB 9 & 10 Debt Reduction ¹ '000	Foreign exchange movement '000	Amortisation of borrowing costs '000	Reclassification '000	30 June 2020 '000
Current borrowings	\$ (51,211)	\$ -	\$ -	\$ -	\$ 2,793	\$ 7,873	\$ (123)	\$ -	\$ 31,949	\$ (8,719)
Non-current borrowings	(122,543)	-	642	-	-	-	(1,887)	(724)	(31,949)	(156,461)
Total financing liabilities	\$ (173,754)	\$ -	\$ 642	\$ -	\$ 2,793	\$ 7,873	\$ (2,010)	\$ (724)	\$ -	\$ (165,180)

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	
	2021	2020	2021	2020
Ordinary shares on issue				
1 July	356,708,489	353,357,283	\$ 136,696	\$ 131,836
Shares issued for dividend reinvestment plan	336,233	254,485	\$ 1,097	\$ 804
Shares issued to Employee Share Trust	2,849,566	479,686	9,440	1,861
Shares or proceeds transferred for beneficiaries	-	-	(4,675)	(1,096)
Shares issued for vested performance rights	-	2,617,035	-	3,291
30 June	359,894,288	356,708,489	\$ 142,558	\$ 136,696
Reserved shares				
1 July	(661,607)	(676,695)	\$ (1,356)	\$ (1,266)
Shares issued to Employee Share Trust or sold	(2,849,566)	(479,686)	\$ (9,440)	\$ (1,861)
Shares or proceeds transferred for beneficiaries	3,232,645	494,774	9,904	1,771
30 June	(278,528)	(661,607)	\$ (892)	\$ (1,356)
Net	359,615,760	356,046,882	\$ 141,666	\$ 135,340

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 Statement of 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 2021 is comprised of shares issued as part employee share plans and the dividend reinvestment plan.

The Group announced an unfranked FY2020 final dividend of 5.0 cents per share with an option for dividend reinvestment priced at \$3.26 per share on 23 September 2020, followed by an unfranked FY2021 interim dividend of 4.0 cents per share which was announced on 26 February 2021.

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 2,849,566 shares to the trust during the year ended 30 June 2021 for the FY2018 LTI vesting and NED TFR share rights.

II Reserves

The reserves are shown within the Consolidated Statement of Changes in Equity for the year ended 30 June 2021.

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 37.

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

	2021 <u>'000</u>	2020 <u>'000</u>
Deferred grant income		
Current		
Infrastructure development	\$ (2,968)	\$ (3,232)
Total	<u>\$ (2,968)</u>	<u>\$ (3,232)</u>
Non - current		
Infrastructure development	\$ (64,832)	\$ (54,046)
Total	<u>\$ (64,832)</u>	<u>\$ (54,046)</u>
Total	<u>\$ (67,800)</u>	<u>\$ (57,278)</u>
Movements in grants		
1 July	\$ (57,278)	\$ (62,659)
Grants received during the year	\$ (18,469)	\$ -
Amortised to the profit and loss	3,340	6,587
Foreign exchange rate adjustment	4,607	(1,206)
Net movement	<u>\$ (10,522)</u>	<u>\$ 5,381</u>
30 June	<u>\$ (67,800)</u>	<u>\$ (57,278)</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

	2021 '000	2020 '000
Trade and other receivables		
Trade amounts owing by unrelated entities	\$ 143,177	\$ 144,302
Expected credit losses	(4,895)	(85)
Total	\$ 138,282	\$ 144,217

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 & other receivables

		Days outstanding				Impaired	Total
		0-30	31-60	61-90	90+		
30 June 2021	'000	\$ 126,044	\$ 11,081	\$ 100	\$ 5,952	\$ (4,895)	\$ 138,282
30 June 2020	'000	141,660	711	4	1,927	(85)	144,217

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

	<u>2021</u> <u>'000</u>	<u>2020</u> <u>'000</u>
Prepayments		
Current	\$ 11,588	\$ 11,444
Non-current	3,203	-
Total	<u>\$ 14,791</u>	<u>\$ 11,444</u>

As outlined in Note 2 the change in prepayment relates to the Company recognising prepayments of \$3.203 million (of which \$1.334 million was included in capital work in progress as at 30 June 2020) in respect of customisation and configuration activities undertaken in implementing SaaS arrangements, which are considered not to be distinct from the access to the SaaS over the contract term.

Note 17 Inventories and work in progress

I Net carrying amount

	<u>2021</u> <u>'000</u>	<u>2020</u> ¹ <u>'000</u>
Inventories and work in progress		
Work in progress	\$ 171,605	\$ 199,026
Other inventory	6,724	5,664
Total	<u>\$ 178,329</u>	<u>\$ 204,690</u>

1. Restatement of prior year balances as outlined below.

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.
- No inventories are expected to be realised more than 12 months after the reporting date.
- Further information relating to work in progress (WIP) is provided in Note 4.

III Inventories

Inventories includes raw materials and WIP recognised in accordance with AASB 102 in respect of contracts with customers which have been determined to fulfil the criteria for point in 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.

IV Restatement of prior period

The FY2020 prior period balances for work in progress (WIP) and PPIA have been restated by an equal and opposite amount of \$60.891 million because USA was previously reported based on the net segment position whereas it has now been reclassified on the basis of each performance obligation. This change has no impact on prior year Net Assets, EBIT, NPAT nor EPS.

Note 18 Trade and other payables

I Disclosure

	<u>2021</u> <u>'000</u>	<u>2020</u> <u>'000</u>
Trade and other payables		
Trade and other payables owed to unrelated entities ¹	\$ (133,380)	\$ (156,910)
Total	<u>\$ (133,380)</u>	<u>\$ (156,910)</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	Warranty '000	Onerous Contracts '000	Other '000	Total '000
Provisions at 30 June 2020	\$ (56,729)	\$ (4,188)	\$ (8,318)	\$ (1,945)	\$ (11,473)	\$ (82,653)
Arising during the year	\$ (96,272)	\$ (4,300)	\$ (15,499)	\$ (8,306)	\$ (10,628)	\$ (135,005)
Utilised	87,147	3,585	7,641	536	8,925	107,834
Unused amounts reversed	221	22	2,801	1,292	-	4,336
Effects of foreign exchange	3,160	251	410	138	329	4,288
Movement	\$ (5,744)	\$ (442)	\$ (4,647)	\$ (6,340)	\$ (1,374)	\$ (18,547)
Provisions at 30 June 2021	\$ (62,473)	\$ (4,630)	\$ (12,965)	\$ (8,285)	\$ (12,847)	\$ (101,200)

	Employee Benefits '000	Workers' Compensation '000	Warranty '000	Onerous Contracts '000	Other '000	Total '000
Provisions at 30 June 2020						
Current	\$ (54,208)	\$ (4,188)	\$ (8,318)	\$ (1,945)	\$ (11,473)	\$ (80,132)
Non-current	(2,521)	-	-	-	-	(2,521)
Total	\$ (56,729)	\$ (4,188)	\$ (8,318)	\$ (1,945)	\$ (11,473)	\$ (82,653)
Provisions at 30 June 2021						
Current	\$ (60,097)	\$ (4,630)	\$ (12,965)	\$ (8,285)	\$ (12,847)	\$ (98,824)
Non-current	(2,376)	-	-	-	-	(2,376)
Total	\$ (62,473)	\$ (4,630)	\$ (12,965)	\$ (8,285)	\$ (12,847)	\$ (101,200)

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. 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.

4. Onerous contracts

A provision for onerous contracts is recognised for contracts that are forecasted to generate a loss. Significant judgment can be required in estimating the presence and magnitude of a loss for a vessel, including assessments of future labour and material costs, overhead rates and contingencies, that may subsequently increase or decrease through the period of construction to completion.

\$8.277 million of the onerous contract provision at 30 June 2021 relates to a single LCS that will be constructed in the USA.

Further discussion regarding this vessel is disclosed within Revenue in the sub section commencing on page 93.

5. Corporate investigations

The Group continues to engage with ASIC and certain US Regulatory Authorities into certain market disclosures made in late CY2015 and mid CY2016. An \$11.481 million provision has been recorded based on the best estimate of the probable incremental professional services costs relating to this matter. Although ASIC has now commenced formal civil proceedings which provides some additional insight into potential costs and/or penalties, the Group has had to apply significant judgement when considering whether, and how much, to provide for costs. The provision could change substantially over time as (i) the formal civil proceedings commenced by ASIC develop; and (ii) feedback is received from US regulators as to potential outcomes or resolutions in response to the Company's engagement with those authorities.

The Company remains in constructive discussions with its Directors' and Officers' insurer and is confident that a significant proportion of its legal costs incurred to date will be recoverable under its Directors' and Officers' insurance cover. The Group has recorded \$1.5 million as a receivable at 30 June 2021. The receipt of any further amount is dependent on the insurance claim approval process and the precise extent of coverage accepted by the insurer. The process of ascertaining which of the Company's costs will be covered is ongoing.

Whilst the commencement of formal proceedings by ASIC has provided additional clarity as to the potential outcomes from that investigation, the ongoing uncertainty as to likely or potential outcomes in the US investigation means that the Group is not in a position to make any provision for any penalties or damages that may arise from the investigations. Refer to 0 for further information.

6. 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 2021 (FY2020 H1: 3.0 cents per share).

An unfranked dividend of 4.0 cents per share has been declared post year end and is not recognised as a liability for the year ended 30 June 2021 (FY2020 H2: 5.0 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
Balance 30 June 2020					
Gross carrying amount at fair value	\$ 591,314	\$ -	\$ -	\$ -	\$ 591,314
Gross carrying amount at cost	-	49,886	267,917	2,341	320,144
Accumulated depreciation and impairment	(128,027)	(9,508)	(163,724)	-	(301,259)
Net carrying amount	\$ 463,287	\$ 40,378	\$ 104,193	\$ 2,341	\$ 610,199
Balance 30 June 2021					
Gross carrying amount at fair value	\$ 455,264	\$ -	\$ -	\$ -	\$ 455,264
Gross carrying amount at cost	-	45,920	309,797	21,819	377,536
Accumulated depreciation and impairment	-	(10,555)	(178,035)	-	(188,590)
Net carrying amount	\$ 455,264	\$ 35,365	\$ 131,762	\$ 21,819	\$ 644,210

II Reconciliation of movement for the year

	Freehold Land and Buildings '000	Leasehold Improvements '000	Plant and Equipment '000	Capital WIP '000	Total '000
Balance 1 July 2019					
	\$ 426,500	\$ 41,322	\$ 117,324	\$ 3,238	\$ 588,384
Additions	\$ 287	\$ -	\$ 3,332	\$ 10,292	\$ 13,911
Transfer in / (out)	349	4,178	6,325	(10,852)	-
Transfers to intangibles	-	-	(2,481)	-	(2,481)
Disposals	-	-	(331)	-	(331)
Depreciation charge for the year	(12,183)	(5,544)	(19,461)	-	(37,188)
Revaluation	42,556	-	-	-	42,556
Effects of foreign exchange	5,778	422	(515)	(337)	5,348
Total	\$ 36,787	\$ (944)	\$ (13,131)	\$ (897)	\$ 21,815
Balance 30 June 2020					
	\$ 463,287	\$ 40,378	\$ 104,193	\$ 2,341	\$ 610,199
Additions	\$ 9,403	\$ -	\$ 34,481	\$ 32,373	\$ 76,257
Acquisitions through business combinations	3,164	-	8,830	-	11,994
Transfer in / (out)	-	-	12,810	(12,810)	-
Disposals	(28)	-	(1,519)	-	(1,547)
Depreciation charge for the year	(13,335)	(1,867)	(23,055)	-	(38,257)
Revaluation	26,117	-	-	-	26,117
Effects of foreign exchange	(33,344)	(3,146)	(3,978)	(85)	(40,553)
Total	\$ (8,023)	\$ (5,013)	\$ 27,569	\$ 19,478	\$ 34,011
Balance 30 June 2021					
	\$ 455,264	\$ 35,365	\$ 131,762	\$ 21,819	\$ 644,210

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 building would be recognised as detailed in the table below if they were measured using the historic cost model.

	<u>2021</u> <u>'000</u>	<u>2020</u> <u>'000</u>
Land and Buildings and Leasehold Improvements valued using cost model		
Cost	\$ 441,986	\$ 441,137
Accumulated depreciation and impairment	(131,459)	(100,208)
Net carrying amount	<u>\$ 310,527</u>	<u>\$ 340,929</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 pre-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 valuation methodology utilised a market comparison approach based on highest and best use which is consistent with the Group's current use of the assets.

The independent revaluation is renewed every three to five years. 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 at the fair value are observable.

The last independent revaluation of the Australia land and buildings occurred during June 2021. This resulted in a decrease in the valuation of \$(1.137) million recognised in Other Comprehensive Income.

The last independent revaluation of the USA land and buildings occurred during June 2021. This resulted in an increase in the valuation of \$27.254 million recognised in Other Comprehensive Income.

Note 21 Leases

I Amounts recognised in the statement of financial position

	2021 '000	2020 '000
Right-of-use assets		
Properties	\$ 55,818	\$ 9,346
Equipment	8	262
Motor vehicles	167	128
Total	<u>\$ 55,993</u>	<u>\$ 9,736</u>
	2021 '000	2020 '000
Lease liability		
Current lease liability	\$ (4,635)	\$ (2,627)
Non-current lease liability	(52,758)	(7,449)
Total	<u>\$ (57,393)</u>	<u>\$ (10,076)</u>

Additions to the right of use assets during the reporting period were \$52.089 million (FY2020: \$8.087 million). The maturity analysis of lease liabilities is included in Note 27.

II Amounts recognised in the statement of profit and loss

	2021 <u>'000</u>	2020 <u>'000</u>
Amounts recognised in the Profit and Loss		
Depreciation for right-of-use assets		
Properties	\$ (4,755)	\$ (3,112)
Equipment	(3)	(2,524)
Motor vehicles	(96)	(87)
Total	<u>\$ (4,854)</u>	<u>\$ (5,723)</u>
Interest expense (included in finance costs)	\$ (1,179)	\$ (436)
Expense relating to short term leases, low value leases and leases with variable payments	\$ (3,431)	\$ (4,509)
Total cash flow for leases	\$ (7,585)	\$ (6,010)

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
Balance 1 July 2020				
Cost	\$ 29,692	\$ 12,904	\$ 4,159	\$ 46,755
Accumulated amortisation and impairment	(23,861)	-	(702)	(24,563)
Net carrying amount	<u>\$ 5,831</u>	<u>\$ 12,904</u>	<u>\$ 3,457</u>	<u>\$ 22,192</u>
Balance 30 June 2021				
Cost	\$ 26,731	\$ 31,131	\$ 3,830	\$ 61,692
Accumulated amortisation and impairment	(23,174)	-	(947)	(24,121)
Net carrying amount	<u>\$ 3,557</u>	<u>\$ 31,131</u>	<u>\$ 2,883</u>	<u>\$ 37,571</u>

II Reconciliation of movement for the year

	Computer Software '000	Goodwill '000	Other Intangibles '000	Total '000
Balance 1 July 2019				
	\$ 4,256	\$ 12,797	\$ 3,690	\$ 20,743
Additions	\$ 1,661	\$ -	\$ -	\$ 1,661
Disposals	(3)	-	-	(3)
Transfers from plant and equipment	2,481	-	-	2,481
Amortisation for the year	(2,526)	-	(306)	(2,832)
Effects of foreign exchange	(38)	107	73	142
Total	<u>\$ 1,575</u>	<u>\$ 107</u>	<u>\$ (233)</u>	<u>\$ 1,449</u>
Balance 30 June 2020				
	<u>\$ 5,831</u>	<u>\$ 12,904</u>	<u>\$ 3,457</u>	<u>\$ 22,192</u>
Additions	\$ 895	\$ -	\$ -	\$ 895
Disposals	(617)	-	-	(617)
Acquisitions through business combinations	-	18,739	-	18,739
Amortisation for the year	(2,295)	-	(301)	(2,596)
Effects of foreign exchange	(257)	(512)	(273)	(1,042)
Total	<u>\$ (2,274)</u>	<u>\$ 18,227</u>	<u>\$ (574)</u>	<u>\$ 15,379</u>
Balance 30 June 2021				
	<u>\$ 3,557</u>	<u>\$ 31,131</u>	<u>\$ 2,883</u>	<u>\$ 37,571</u>

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 straight-line basis over the estimated useful life of each asset. Computer software is amortised on a straight-line basis over 2 to 5 years.

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 CGU 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 cash-generating unit 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 cash-generating unit retained.

Note 23 **Impairment testing of non-current assets**

I **Review cycle**

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 have been assessed at the CGU level as identified below:

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

III **Allocation of assets to CGU**

Corporate assets have been allocated to CGU to the extent that they relate to the CGU.

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

- USA Support - a carrying amount of \$5.929 million
- Australasia Support - a carrying amount of \$25.202 million..

IV **Assessment of recoverable amounts and sensitivity to changes in assumptions**

The recoverable amount of the CGUs was determined based on value in use calculations using 5 year cash flow projections. Key inputs into the cash flow projection include the volume and profitability of contracted and projected projects. Changes in these inputs may have an impact on the cash flow projections. Any significant change in the key assumptions could lead to an impairment of the CGU.

1. USA Shipbuilding

The recoverable amount for the USA Shipbuilding CGU was assessed because of the diminished value of the contracted order book at 30 June 2021.

The Company concluded that the recoverable amount is greater than the carrying amount of assets and that no impairment charge is required as a result of this analysis. No reasonably foreseeable changes in any of the key assumptions is likely to result in an impairment loss.

2. USA Support

The recoverable amount for the USA Support CGU was assessed as required under the accounting standards because goodwill has been allocated to the USA Support CGU.

The Company concluded that the recoverable amount is greater than the carrying amount of assets and that no impairment charge is required as a result of this analysis. No reasonably foreseeable changes in any of the key assumptions is likely to result in an impairment loss.

3. Australasia Shipbuilding

The recoverable amount for the Australasia Shipbuilding CGU was assessed because of the diminished value of the contracted order book at 30 June 2021, the negative impact of COVID-19 on the commercial vessel market, and the completion of two major shipbuilding contracts in Australia within a three year time frame (Guardian Class Patrol Boats and Cape Class Patrol Boats 11 – 16).

The Company concluded that the recoverable amount is greater than the carrying amount of assets and that no impairment charge is required as a result of this analysis however the recoverable amount of the Australasia Shipbuilding CGU is contingent upon the successful award of future commercial and defence contracts.

Continued depression of commercial markets as a result of COVID-19 for a duration of 3 years or more and or failure to secure defence shipbuilding contracts beyond completion of the Guardian Class Patrol Boats and Cape Class Patrol Boats 11 – 16 in FY2025 would be likely to result in an impairment loss.

4. Australasia Support

The recoverable amount for the Australasia Support CGU was assessed as required under the accounting standards because goodwill has been allocated to the Australasia CGU.

The Company concluded that the recoverable amount is greater than the carrying amount of assets and that no impairment charge is required as a result of this analysis. No reasonably foreseeable changes in any of the key assumptions is likely to result in an impairment loss.

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:

Concept	Assumption
Growth assumptions	Award of projected vessels
Perpetuity growth rate	0.0%
Post tax discount rate	10.5%
Average inflation on costs	2.0%

2. Growth assumptions

Growth assumptions are based on future vessel construction and service projects not yet awarded. The assumptions are based on historical experience of the size of the vessel that customers typically contract and the corresponding average tender pricing.

3. Perpetuity growth rate

Austal has taken a conservative view and included a 0% perpetuity growth rate in calculation of the terminal value.

4. 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.

Long term AUD and USD interest rates have been low for many years, and were abnormally low due to COVID-19 during FY2021. Austal has taken a conservative view for impairment purposes and maintained a minimum post tax discount rate of 10.5% for all CGUs notwithstanding the low long term rates currently being observed.

5. Inflation on costs

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

6. COVID-19

The Board assessed a number of scenarios to quantify the potential impact of COVID-19 on the impairment assessment of the Group to understand the point at which an impairment issue may arise. The scenarios included:

- Current forecast (Base case)
- Various extended periods without the award of new vessels
- Curtailment of current programs

The Board was satisfied that no impairment was required for any of the CGU as at 30 June 2021.

Note 24 Investments and other financial assets

I Net carrying amount

	2021 '000	2020 '000
Other financial assets		
Collateral ¹	\$ 14,013	\$ 12,950
Security deposits	978	247
Total	<u>\$ 14,991</u>	<u>\$ 13,197</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 cash at bank with an original maturity of 1 year or more. Collateral and security deposits are classified as receivables and measured at amortised cost.

Note 25 Assets held for sale

I Disclosure

	2021 <u>'000</u>	2020 <u>'000</u>
Current assets held for sale		
Investment in Aulong Shipbuilding Co Ltd Joint Venture	\$ 1,729	\$ -
Total	<u>\$ 1,729</u>	<u>\$ -</u>

On 28 April 2021 Austal announced its intention to sell its 40% shareholding in Aulong Shipbuilding Co Ltd Joint Venture (within the Group's shipbuilding segment) to its joint venture partner Guangdong Jianglong Shipbuilding Co Ltd (Jianglong Shipbuilding) who own the remaining 60%.

A letter of intent has been executed by the parties targeting completion of negotiations by 31 October 2021.

Note 26 Other non-current assets

I Net carrying amount

	2021 <u>'000</u>	2020 <u>'000</u>
Research and development credits		
Recognised		
USA	\$ -	\$ 7,767
Total	<u>\$ -</u>	<u>\$ 7,767</u>
Unrecognised		
Australia	\$ 1,451	\$ 5,248
Total	<u>\$ 1,451</u>	<u>\$ 5,248</u>

II Recognition and measurement

All USA R&D credits that were recognised at 30 June 2020 will be utilised to partially offset FY2021 income tax liability and hence there are no carried forward R&D credits as at 30 June 2021.

III Unrecognised R&D credits

A non-current asset has not been recognised in relation to \$1.451 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.

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.

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.

Risk	Exposure arising from	Monitoring	Management
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:

	2021	2020
	'000	'000
Financial assets		
Cash and cash equivalents	\$ 346,899	\$ 396,667
Derivative contracts	4,250	2,404
Total	<u>\$ 351,149</u>	<u>\$ 399,071</u>
Financial liabilities		
Interest bearing liabilities	\$ (147,204)	\$ (165,180)
Derivative contracts	(2,728)	(9,378)
Total	<u>\$ (149,932)</u>	<u>\$ (174,558)</u>
Net exposure	<u>\$ 201,217</u>	<u>\$ 224,513</u>

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. The Board notes that interventions by central banks to stimulate economies impacted by COVID-19 caused extremely low levels of volatility in FY2021, after high levels of volatility were experienced during FY2020.

	2021	2020
	'000	'000
Post tax gain / (loss)		
+1.00% (100 basis points)	\$ 1,729	\$ 1,887
-1.00% (100 basis points)	(1,729)	(1,887)

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 2021 were:

	All values are stated in AUD equivalent				Total '000
	AUD '000	USD ¹ '000	EUR ² '000	Other '000	
Balance 30 June 2021					
Financial assets					
Cash and cash equivalents	\$ 132	\$ 622	\$ 47	\$ 620	\$ 1,421
Trade and other receivables	-	-	-	385	385
Derivatives	240	3	3,882	125	4,250
Total	\$ 372	\$ 625	\$ 3,929	\$ 1,130	\$ 6,056
Financial liabilities					
Trade and other payables	\$ -	\$ (50)	\$ -	\$ (315)	\$ (365)
Derivatives	(252)	(575)	(1,822)	(79)	(2,728)
Total	\$ (252)	\$ (625)	\$ (1,822)	\$ (394)	\$ (3,093)

	All values are stated in AUD equivalent				Total '000
	AUD '000	USD ¹ '000	EUR ² '000	Other '000	
Balance 30 June 2020					
Financial assets					
Cash and cash equivalents	\$ -	\$ 4,683	\$ 23	\$ 1,262	\$ 5,968
Trade and other receivables	-	-	-	10	10
Derivatives	2,401	3	-	-	2,404
Total	\$ 2,401	\$ 4,686	\$ 23	\$ 1,272	\$ 8,382
Financial liabilities					
Trade and other payables	\$ (3)	\$ (4)	\$ (10)	\$ (1,320)	\$ (1,337)
Derivatives	(558)	(8,820)	-	-	(9,378)
Total	\$ (561)	\$ (8,824)	\$ (10)	\$ (1,320)	\$ (10,715)

1. Spot USD / AUD exchange rate at 30 June 2021 was 0.7498 (30 June 2020: 0.6902)

2. Spot EUR / AUD exchange rate at 30 June 2021 was 0.6323 (30 June 2020: 0.6143)

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)	
	2021	2020	2021	2020
	'000	'000	'000	'000
Judgement of reasonable possible movements				
USD / AUD - 10% lower	\$ 1,766	\$ 5,531	\$ 103,585	\$ 97,776
USD / AUD - 10% higher	(1,445)	(4,525)	(84,783)	(80,095)
EUR / AUD - 10% lower	\$ 1,648	\$ 145	\$ (4,968)	\$ (12,171)
EUR / AUD - 10% higher	(1,349)	(119)	4,064	9,958

1. Spot USD / AUD exchange rate at 30 June 2021 was 0.7498 (30 June 2020: 0.6902)
2. Spot EUR / AUD exchange rate at 30 June 2021 was 0.6323 (30 June 2020: 0.6143)

The foreign currency translation of USD denominated net assets would have significantly affected the equity at the reporting date. The Group had US\$485.935 million of USD denominated net assets at 30 June 2021 (US\$450.475 million at 30 June 2020).

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' amount represents the AUD equivalent of commitments to sell foreign currencies.

	2021				2020			
	Buy		Sell		Buy		Sell	
	Average Forward Rate	AUD Equivalent '000						
USD		Buy USD		(Sell USD)		Buy USD		(Sell USD)
less than 3 months	0.7212	\$ 14,551	0.7763	\$ (176)	0.7184	\$ 7,244	0.6931	\$ (24,121)
3 - 12 months	0.7560	441	0.7690	(26,703)	0.7203	9,007	0.7138	(51,138)
> 12 months	-	-	0.7657	(24,826)	0.7217	6,800	0.7249	(64,927)
Total		<u>\$ 14,992</u>		<u>\$ (51,705)</u>		<u>\$ 23,051</u>		<u>\$ (140,186)</u>
EUR		Buy EUR		(Sell EUR)		Buy EUR		(Sell EUR)
less than 3 months	0.6424	\$ 77	0.6003	\$ (20,086)	0.6065	\$ 472	0.6177	\$ (17,072)
3 - 12 months	0.6667	25,790	0.5958	(48,869)	0.5887	27,488	0.6048	(31,827)
> 12 months	0.6108	18,572	-	-	0.5736	53,497	0.5965	(67,243)
Total		<u>\$ 44,439</u>		<u>\$ (68,955)</u>		<u>\$ 81,457</u>		<u>\$ (116,142)</u>

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 two 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 \$150 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 ¹ '000
	0 - 1 '000	1 - 5 '000	> 5 '000	
Balance 30 June 2021				
Derivative financial assets / (liabilities)				
Outflow	\$ (123,606)	\$ (26,652)	\$ -	\$ (150,258)
Inflow	126,107	25,492	-	151,599
Net derivative financial assets / (liabilities)	\$ 2,501	\$ (1,160)	\$ -	\$ 1,341
Non-derivative financial liabilities				
Trade and other payables	\$ (126,202)	\$ -	\$ -	\$ (126,202)
Go Zone Bond facility	-	(116,756)	-	(116,756)
Vessel finance for CCPB 9 & 10 ²	(32,206)	-	-	(32,206)
Lease liabilities	(7,377)	(19,673)	(75,646)	(102,696)
Total	\$ (165,785)	\$ (136,429)	\$ (75,646)	\$ (377,860)
Balance 30 June 2020				
Derivative financial assets / (liabilities)				
Outflow	\$ (144,609)	\$ (142,379)	\$ -	\$ (286,988)
Inflow	142,627	137,733	-	280,360
Net derivative financial assets / (liabilities)	\$ (1,982)	\$ (4,646)	\$ -	\$ (6,628)
Non-derivative financial liabilities				
Trade and other payables	\$ (157,410)	\$ -	\$ -	\$ (157,410)
Go Zone Bond facility	-	(126,837)	-	(126,837)
Finance leases	(938)	(7,666)	-	(8,604)
Vessel finance for CCPB 9 & 10 ²	(8,720)	(32,206)	-	(40,926)
Lease liabilities	(2,692)	(3,377)	(7,861)	(13,930)
Total	\$ (169,760)	\$ (170,086)	\$ (7,861)	\$ (347,707)

1. Contractual cash flows include interest

2. Contractual cashflows are equal to the residual value of the CCPB 9 & 10 vessels. Further information is provided in Note 11.

The Group had \$50.000 million (FY2020: \$50.000 million) of unused cash loan credit facilities available for immediate use at the reporting date and \$346.899 million (FY2020: \$396.667 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
Balance 30 June 2021				
Financial assets				
Derivatives	\$ -	\$ 4,250	\$ -	\$ 4,250
Financial liabilities				
Derivatives	\$ -	\$ (2,728)	\$ -	\$ (2,728)
Balance 30 June 2020				
Financial assets				
Derivatives	\$ -	\$ 2,404	\$ -	\$ 2,404
Financial liabilities				
Derivatives	\$ -	\$ (9,378)	\$ -	\$ (9,378)

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 \$147.204 million (30 June 2020: \$165.180 million) which equals their fair value. Further information is provided in Note 11.

Unrecognised items

Note 30 Commitments and contingencies

	2021	2020
	'000	'000
Capital commitments		
Intangibles	\$ -	\$ (17,500)
Property, plant and equipment	(60,761)	(330)
Total	<u>\$ (60,761)</u>	<u>\$ (17,830)</u>
Guarantees		
Bank performance guarantees ¹	\$ (162,161)	\$ (222,695)
Sureties	(22,810)	(243,658)
Total	<u>\$ (184,971)</u>	<u>\$ (466,353)</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.

1. Vessel delivery postponement

Extended Government imposed comprehensive quarantine measures implemented as a result of COVID-19, have postponed a vessel's scheduled delivery by several months, which has triggered a potential cancellation right notwithstanding the absence of default by either party. Despite this contractual entitlement, both parties have acknowledged the unique circumstances brought about by the COVID-19 virus and signed a deed of arrangement to extend the contractual delivery by 10 months to December 2022.

The customer retains the right to cancel the contract if Austal does not deliver the vessel within 3 months of the revised delivery date.

Cancellation in February 2023 would require Austal to repay milestone payments received to the date of cancellation which would be €64.2 million and Austal would then take possession of the vessel.

Austal would need to resell the vessel to an alternative buyer.

2. Other

The Directors are not aware of any other material contingent liabilities in existence as at 30 June 2021 requiring disclosure in the financial statements.

Note 31 Corporate investigations

As described in previous annual and half year reports and ASX announcements, the Group is assisting ASIC and US regulatory authorities (notably, the Department of Justice (DoJ) and the Securities Exchange Commission) in their investigations into historical matters concerning Austal's Littoral Combat Ship (LCS) program before July 2016.

In June 2021 ASIC formally advised Austal Limited (the Company) that (i) it would not commence criminal proceedings, and (ii) it has commenced civil proceedings against the Company and its prior CEO. The civil proceedings allege that although an announcement notifying the market of a write back of profits from the US business was made on 4 July 2016, the Company was aware as early as 4 June 2016 of the need to make a material write back of work in progress attributable to the LCS program. ASIC is seeking civil declarations that the Company contravened its continuous disclosure obligations as well as the relevant misleading and deceptive conduct provisions of the Corporations Act 2001 (Cth) and the Australian Securities and Investments Commission Act 2001 (Cth).

The Company is defending the allegations but will continue to seek engagement with ASIC through the course of formal proceedings where possible.

The investigations by US regulatory authorities have been focussed primarily on Austal's US operations, including the write back of work in progress (WIP) attributable to the LCS program in July 2016, the procurement of certain ship components for use in connection with US Government contracts and charging and allocation of labour hours.

The Company and its wholly owned subsidiary Austal USA, LLC (Austal USA) have been cooperating with the US regulatory authorities in relation to these investigations and engaged external lawyers in the US to conduct their own detailed investigation in relation to what they understand to be the focus of the US regulatory investigations. Upon completion of that internal investigation, the Company noted and advised the market that:

- The LCS vessels cost more to construct than originally anticipated due in large part to additional costs incurred to meet the requirements of US Naval vessel Rules and mandatory shock standards. The Group announced a one-off write back of WIP in July 2016 to fully reflect these additional costs.
- Prior to mid-2016, inaccuracies in Austal USA's internally generated cost estimates understated the full costs to construct the LCS vessels, which delayed Austal Limited's understanding of the magnitude of those costs and the need to change those estimates. This overstated the WIP attributable to the LCS program for those periods.
- The Group is satisfied that the extensive review of the LCS program conducted in 2016 and the subsequent write back announced in July 2016 appropriately rectified the financial impact of these issues. The Group is also satisfied that Austal USA materially complied with its reporting requirements with the US Navy.
- No material inaccuracies have been identified regarding the total labour hours for the LCS program and Austal USA has resolved the US Navy's contractual claims in relation to the installation of certain valves on board LCS 10 through LCS 20.

Following the completion of the internal investigation, on 22 February 2021 the Austal USA Board accepted the resignation of Austal USA's President, Mr Craig Perciavalle. Since then, Austal USA has substantively and constructively engaged with US regulators to bring about a resolution of the investigation and this engagement has been welcomed by US regulators.

The Group is confident that the proactive steps it has already implemented to strengthen its internal reporting and compliance practices 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 suspension or debarment from future US Government contracts. The Group has not been provided with any indication of whether such proceedings will be commenced in the US, or whether any fines or penalties may be levied (or if so, their likely magnitude). Hence 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.

An \$11.481 million provision has been recorded based on the best estimate of the probable incremental professional services costs relating to the Australian civil proceedings and the US investigations. In light of uncertainty around the potential outcome, the Group has had to apply significant judgement when considering whether, and how much, to provide for costs. As a result of the high level of estimation uncertainty, the provision could change substantially over time as new facts emerge and the investigations progress. Refer to the Provisions Note 19 for further information.

Note 32 **Events after the balance date**

I **Dividend proposed**

An unfranked final dividend of 4.0 cents per share has been declared for FY2021 post 30 June 2021 (FY2020 final: 5.0 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 Business combinations

I Business Combination Accounting Policy

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the:

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. The difference is recognised directly in profit or loss as a bargain purchase if those amounts are less than the fair value of the net identifiable assets of the business acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently re-measured to fair value with changes in fair value recognised in profit and loss.

The carrying value of the acquirer's previously held equity interest in the acquiree at the acquisition date is re-measured to fair value at the acquisition date if the business combination is achieved in stages. Any gains or losses arising from such re-measurement are recognised in profit and loss.

II Summary of acquisition

Austal Limited obtained control of the BSE Maritime Solutions Group operations on 30 November 2020 through the acquisition of 100% of the issued share capital of BSE Maritime Group Pty Ltd, Brisbane Slipways Holdings Pty Ltd, Brisbane Slipways & Engineering Pty Ltd and their wholly-owned subsidiaries (collectively "BSE").

BSE is a provider of vessel sustainment services. The acquisition complements Austal's existing in-service support services whilst expanding Austal's capacity and presence in the Cairns and Brisbane regions.

BSE was acquired for a total consideration of \$22.676 million plus acquisition related costs.

III Purchase consideration

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	Total
	'000
Outflow of cash to acquire subsidiary, net of cash acquired	
Purchase consideration cash paid	\$ 22,676
Less cash acquired	(1,724)
Net purchase consideration	<u>\$ 20,952</u>

IV Net assets acquired and goodwill

Details of the net assets acquired and goodwill are as follows:

	Total
	'000
Cash and cash equivalents	\$ 1,724
Trade and other receivables	828
Work in progress	180
Prepayments	356
Property, plant and equipment	11,994
Right-of-use assets	42,654
Deferred tax assets	56
Trade and other payables	(1,871)
Interest bearing loans and borrowings	(7,265)
Lease liabilities	(42,654)
Deferred tax liabilities	(45)
Provision for income tax	(1,045)
Provisions	(975)
Net identifiable assets acquired	3,937
Goodwill	18,739
Total	<u>\$ 22,676</u>

1. Goodwill

The goodwill of \$18.739 million is attributable to the increased capability of the Group to perform large scopes of work that were previously subcontracted to BSE.

2. Acquisition-related costs

Acquisition related costs of \$(0.300) million are included in administrative expenses in Profit and Loss and in operating cash flows in the statement of cash flows.

3. Revenue and profit contribution

The acquisition would have contributed \$18.661 million of consolidated revenue and \$0.195 million of consolidated NPAT for the full year ended 30 June 2021 had it occurred on 1 July 2020.

The acquired business contributed revenues of \$7.988 million and a net loss of \$(1.152) million to the Group for the period 1 December 2020 to 30 June 2021. The net loss included \$(0.792) million of costs related to initial one off business integration expenses. Business performance in the 6 months to June 2021 was impacted by the decline in tourism and Commercial work in Cairns due to the impacts of COVID-19 and the resulting budgetary constraints.

Note 34 Parent interests in subsidiaries

The consolidated financial statements include the financial statements of Austal Limited and the subsidiaries listed in the following table.

Company	Country	Equity Interest	
		2021	2020
Austal Ships Pty Ltd	Australia	100%	100%
Austal Cyprus Ltd	Cyprus	100%	100%
Austal Egypt LLC	Egypt	100%	100%
Austal Muscat LLC ¹	Oman	70%	70%
Austal Service Pty Ltd	Australia	100%	100%
Austal Service Darwin Pty Ltd	Australia	100%	100%
Hydraulink (NT) Pty Ltd	Australia	100%	100%
KM Engineering (NT) Pty Ltd	Australia	100%	100%
Austal Systems Pty Ltd	Australia	100%	100%
Austal UK Ltd	United Kingdom	100%	100%
Austal Holdings Vietnam Pty Ltd	Australia	100%	100%
Austal Viet Nam Co Ltd	Vietnam	100%	100%
Austal Holdings Inc	USA	100%	100%
Austal USA LLC	USA	100%	100%
Austal USA Service LLC	USA	100%	100%
ElectraWatch Inc	USA	100%	100%
Austal Services Subic Bay Philippines Inc	Philippines	100%	100%
Austal Philippines Pty Ltd	Australia	100%	100%
Austal Lewek Hercules Inc	Philippines	100%	100%
Austal Middle East Pty Ltd	Australia	100%	100%
Austal Holdings China Pty Ltd	Australia	100%	100%
Austal Subic Bay Holdings Pty Ltd	Australia	100%	100%
Austal Australasia Pty Ltd	Australia	100%	100%
Seastate Pty Ltd	Australia	100%	100%
BSE Maritime Group Pty Ltd	Australia	100%	100%
Austal Cairns Pty Ltd	Australia	100%	100%
BSE Maritime Group Assets Pty Ltd	Australia	100%	100%
Brisbane Slipways Holdings Pty Ltd	Australia	100%	100%
Brisbane Slipways & Engineering Pty Ltd	Australia	100%	100%
Austal Brisbane Pty Ltd	Australia	100%	100%
Brisbane Slipways Operations Pty Ltd	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.

I Investment in joint venture

	2021	2020
Investment In Joint Venture	'000	'000
Investment in Aulong Shipbuilding Co Ltd Joint Venture	\$ -	\$ 1,729
Total	\$ -	\$ 1,729

The investment in Aulong joint venture represents the Group's 40% interest in the Chinese joint venture, Aulong Shipbuilding Co Ltd (Aulong). The remaining 60% of the joint venture is held by Chinese company Jianglong Shipbuilding Co Ltd.

This has been reclassified to assets held for sale refer Note 25.

Note 35 Related party disclosures

Group policy is that all transactions with related parties are conducted on commercial terms and conditions.

John Rothwell, the Chairman of Austal Limited, engaged Austal at arms-length in March 2021 to complete re-fit work on his private vessel at a price of \$21,996 (excluding GST).

No other related party transactions occurred with the consolidated entity other than the remuneration of Directors and KMP and the matters disclosed in this report.

Note 36 Key management personnel [KMP] compensation

KMP Compensation	2021 '000	2020 '000
Short-term employee benefits	\$ 4,449	\$ 4,948
Post-employment benefits	172	172
Long term benefits	(8)	31
Share-based payments	184	1,178
Total	<u>\$ 4,797</u>	<u>\$ 6,329</u>

Detailed remuneration disclosures are provided in the Remuneration Report commencing on page 41.

Note 37 Share based payments

I Performance rights

The following changes in performance rights took place during the year:

Grant Year	Balance at 30 June 2020	Granted	Vested	Forfeited / Lapsed	Balance at 30 June 2021	Expiry date
FY2019	2,133,285	-	(1,749,079)	(384,206)	-	30 Jun 2021
FY2020	984,682	-	-	(281,270)	703,412	30 Jun 2022
FY2021	-	1,308,412	-	(352,873)	955,539	30 Jun 2023
Total	3,117,967	1,308,412	(1,749,079)	(1,018,349)	1,658,951	

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 2020	Granted	Vested	Forfeited / Lapsed	Balance at 30 June 2021	Expiry date
FY2020	330,704	-	-	(10,281)	320,423	30 Jun 2024
FY2021	-	405,562	-	(17,017)	388,545	30 Jun 2025
Total	330,704	405,562	-	(27,298)	708,968	

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. 405,562 Service rights were issued in FY2021 (FY2020: 338,677).

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:

	<u>2021</u> <u>'000</u>	<u>2020</u> <u>'000</u>
Share-based payments expense		
Expense arising from equity-settled share-based payment transactions	\$ (3,017)	\$ (4,599)

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 38 Parent entity information

Information relating to Austal Limited, the parent entity, is detailed below:

	2021	2020
	'000	'000
Balance sheet		
Assets		
Current	\$ 72,407	\$ 60,688
Non - current	325,672	300,842
Total	<u>\$ 398,079</u>	<u>\$ 361,530</u>
Liabilities		
Current	\$ (13,905)	\$ (14,197)
Non - current	(12,956)	(16,237)
Total	<u>\$ (26,861)</u>	<u>\$ (30,434)</u>
Net assets	<u>\$ 371,218</u>	<u>\$ 331,096</u>
Equity		
Contributed equity	\$ 141,666	\$ 135,340
Employee benefits reserve	7,670	9,881
Asset revaluation reserve	11,332	12,128
Cash flow hedge reserve	50	44
Retained earnings	210,500	173,703
Total	<u>\$ 371,218</u>	<u>\$ 331,096</u>
Income		
Net profit / (loss) after tax	\$ 69,072	\$ (21,131)
Total comprehensive income	68,282	(21,151)

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 2021 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 2021.



John Rothwell AO
Chairman

on behalf of the Board
23 August 2021

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

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 2021, the consolidated statement of profit or 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 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:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2021 and of its financial performance for the year then ended; and
- (ii) 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.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p>Revenue recognition</p> <p>As disclosed in Note 4, Shipbuilding revenue for the year ended 30 June 2021 was \$1,315 million (USA Shipbuilding \$1,013 million, Australasia Shipbuilding \$302 million – refer Note 3).</p> <p>Vessel construction revenues are recognised over time as performance obligations are fulfilled after assessing all factors relevant to each contract, including specifically assessing the following as Applicable the:</p> <ul style="list-style-type: none"> • Determination of stage of completion and measurement of progress towards satisfaction of performance obligations; • Estimation of total contract revenue and costs including the estimation of contingencies which incorporate risk contingencies for which the most significant elements are in relation to: <ul style="list-style-type: none"> ○ the cost contingencies on the LCS program in USA Shipbuilding; and ○ future overhead rates used in the estimation of forecast costs for the LCS and EPF programs in USA Shipbuilding. • Determination of contractual entitlement and assessment of the probability of customer approval of contract modifications, variations and acceptance of claims; and • Estimation of project completion dates. <p>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.</p>	<p>Our audit procedures performed included but were not limited to:</p> <ul style="list-style-type: none"> • Evaluating the design and implementation of processes and controls in respect of the underlying project costs and the recognition of revenue and, where selected, the operating effectiveness of controls; • Discussions with selected project managers on the risks and opportunities in relation to certain individual contracts; • Selecting a sample of contracts for testing based on a number of quantitative and qualitative factors which may 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"> ○ Utilising engineering specialists in the USA to assist in the assessment of the stage of completion of selected vessels in USA Shipbuilding given the significance of the revenue contribution to the Group; ○ 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; ○ Testing a sample of costs incurred to date and agreeing these to supporting documentation; ○ Testing contractual entitlement relating to contract modifications, variations and claims recognised within contract revenue to supporting documentation and by reference to the underlying contracts;

	<ul style="list-style-type: none"> ○ Evaluating the probability of recovery of contract assets by reference to the status of contract negotiations, historical recoveries and other supporting documentation; ○ Challenging the level of cost contingencies on the LCS program in USA Shipbuilding; ○ Evaluating the reasonableness of the future overhead rates used in the estimation of costs for the LCS and EPF programs in USA Shipbuilding; ○ Evaluating significant exposures to liquidated damages for potential late delivery of vessels where relevant; and ○ Evaluating historical accuracy of forecast costs to complete. <p>We also assessed the adequacy of the relevant disclosures in the financial statements.</p>
<p>Carrying amount of non-current assets – Australasia Shipbuilding</p> <p>As at 30 June 2021 the carrying value of goodwill, other intangible assets and property, plant and equipment was \$681.8 million as disclosed in Notes 20 and 22.</p> <p>Property, plant and equipment in relation to the Australasia Shipbuilding CGU was \$120.7 million.</p> <p>The Group prepared a value in use model to assess the recoverable value of the CGU.</p> <p>This requires the Group to exercise significant judgement, with key assumptions including the level of uncontracted revenue included in the forecast and the operating margins.</p>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> ● Understanding the process that the Group undertakes to develop the value in use model; ● Assessing historical forecasting accuracy by comparing actual performance to budgets; ● In conjunction with our valuation specialists: <ul style="list-style-type: none"> ○ Challenging the forecast revenue with consideration of contracted work, uncontracted work (including the probability assigned to securing the forecast uncontracted work) and external industry data where available; ○ Assessing the discount rate against that of comparable companies; and ○ Evaluating operating margins with reference to past performance and knowledge of the business. ● Sample testing the models for mathematical accuracy; and ● Performing sensitivity analysis on the forecast revenue, operating margins and terminal growth assumptions. <p>We also assessed the appropriateness of the disclosures in Note 20 and 22.</p>

<p>Provisions</p> <p>As disclosed in Note 19, the Group recognised a provision of \$11.48 million as at 30 June 2021 for the probable incremental professional services costs (“costs”) relating to the regulatory investigations.</p> <p>The Group had to apply significant judgement when considering whether and how much to provide for costs. As a result of the high level of estimation uncertainty the provision could change substantially over time as new facts emerge and the investigations progress.</p>	<p>Our procedures included, but were not limited to the following:</p> <ul style="list-style-type: none"> • Discussing the potential costs with in-house legal counsel, other management and the directors; • Challenging the assumptions and the basis for the provision; and • Where possible, corroborating the assumptions to external sources and input from the Group’s professional advisors. <p>We also assessed the appropriateness of the disclosures in Note 19.</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 2021 but does not include the financial report and our auditor’s report thereon. The annual report is expected to be made available to us after the date of this auditor’s report.

Our opinion on the financial report does not cover the other information and we will 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

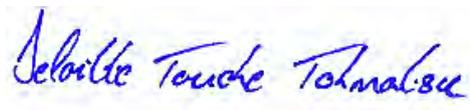
Opinion on the Remuneration Report

We have audited the Remuneration Report included in on pages 41 to 74 of the Directors' Report for the year ended 30 June 2021.

In our opinion, the Remuneration Report of Austal Limited, for the year ended 30 June 2021, 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



A T Richards
Partner
Chartered Accountants
Perth, 23 August 2021

Shareholder information

The following information was extracted from the Company's share register at 30 June 2021:

Distribution of shares

<u>Individual shareholding</u>	<u>Number of shares</u>	<u>% of Total issued capital</u>	<u>Number of holders</u>
1 - 1000	2,204,866	0.61%	4,510
1,001 - 5,000	14,294,530	3.97%	5,300
5,001 - 10,000	13,581,883	3.77%	1,748
10,001 - 100,000	39,161,200	10.88%	1,596
100,001 and over	290,651,809	80.76%	93
Total	359,894,288	100.00%	13,247

Twenty largest shareholders

<u>Rank</u>	<u>Shareholder</u>	<u>Number of shares</u>	<u>% of Total issued capital</u>	<u>Substantial shareholder</u>
1	HSBC Custody Nominees (Australia) Limited	81,603,760	22.67%	Yes
2	J P Morgan Nominees Australia Pty Limited	60,353,833	16.77%	Yes
3	Citicorp Nominees Pty Limited	38,072,182	10.58%	Yes
4	Austro Pty Ltd	32,761,692	9.10%	Yes
5	BNP Paribas Nominees Pty Ltd	20,355,104	5.66%	Yes
6	National Nominees Pty Ltd	16,011,608	4.45%	
7	Onyx (WA) Pty Ltd	5,600,000	1.56%	
8	Mr David Singleton	2,650,010	0.74%	
9	Neweconomy Com Au Nominees Pty Ltd	2,245,281	0.62%	
10	Bond Street Custodians Limited	2,238,684	0.62%	
11	Washington H Soul Pattinson and Company Limited	2,090,000	0.58%	
12	UBS Nominees Pty Ltd	2,079,299	0.58%	
13	Mr Gary Heys & Mrs Dorothy Heys	2,044,670	0.57%	
14	Mossisberg Pty Ltd	1,558,029	0.43%	
15	Pacific Custodians Pty Limited	1,041,587	0.29%	
16	Mr William Robert Chambers	1,000,000	0.28%	
17	Lavinia Shipping Limited	961,061	0.27%	
18	Anacacia Pty Limited	950,000	0.26%	
19	Mt Graham Wallace Ray	940,000	0.26%	
20	Netwealth Investments Limited	920,794	0.26%	
	Total	275,477,594	76.54%	

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 and 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
Mr Giles Everist
Mrs Sarah Adam-Gedge
Mr Chris Indermaur
Mr Mick McCormack

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
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Telephone: +61 1300 554 474

ABN

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