



COMPANY ANNOUNCEMENT
23 FEBRUARY 2021

UPDATE REGARDING USA REGULATORY INVESTIGATIONS AND CHANGES TO AUSTAL USA MANAGEMENT TEAM

Austal Limited (ASX:ASB) (**Company**) refers to its previous announcements regarding separate but related investigations being conducted by US regulatory authorities (notably, the Department of Justice and the Securities Exchange Commission) and the Australian Securities and Investments Commission into historical matters concerning Austal's Littoral Combat Ship (LCS) program before July 2016.

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.

Austal and its wholly owned subsidiary Austal USA have been cooperating with the US regulatory authorities in relation to these investigations. Austal and Austal USA have also 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.

Following the completion of that external investigation, the Company is satisfied that the quantum of the write back of WIP that was announced to the ASX on 4 July 2016 appropriately adjusted Austal's revenue and profit following the revision that was made to the estimated cost to complete the remaining vessels in the LCS program.

However, the Company notes 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 Company 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 Ltd'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.

Austal 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 Company is also satisfied that Austal USA materially complied with its reporting requirements with the US Navy.

- The Company has identified isolated instances of misallocation of labour hours between vessels in the early stages of the LCS program, although, no material inaccuracies have been identified regarding the total labour hours for the LCS program.
- The installation of certain valves on board LCS-10 through LCS-20 did not meet all of the required military specifications at the time of their procurement. The US Navy has since agreed to modify the contract in regard to these vessels to accept the as-built condition of those valves on board the LCS vessels such that they are not required to be replaced. Austal has resolved the US Navy's contractual claims in relation to the installation of these valves and is in discussions with US regulatory authorities regarding these issues.

Following the completion of the investigation, the Austal USA Board has accepted the resignation of the Company's US President, Mr Craig Perciavalle. Austal USA has appointed current Austal USA Chief Financial Officer, Mr Rusty Murdaugh, as interim Austal USA President while it undertakes a search for a permanent President. Mr Murdaugh commenced as Austal USA CFO in March 2017. Prior to Austal USA, he has spent thirty years in financial management in the defence industry with roles at United Technologies, Goodrich, Honeywell and most recently as Vice President of Finance for a business segment of Esterline Technologies.

Austal and Austal USA are engaging with the relevant US regulatory authorities regarding these investigations. It is not possible at this stage to predict what action (if any) they may take in relation to these matters. However, the Company 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, as well as ensuring such circumstances do not happen again.

The Company's relationship with the US Defense Department remains strong. During the course of the US regulatory investigations, Austal has continued to work closely with the US Department of Defense, including on a joint investment in Austal's Mobile shipyard of approximately US\$100 million, to implement a steel shipbuilding capability to complement existing aluminium shipbuilding facilities. Austal recently also delivered its 13th *Independence*-class LCS from the Company's shipyard in Mobile, Alabama, the fourth ship delivered by Austal USA to the US Navy in CY 2020.

The commissioning of the externally-facilitated investigation and changes already implemented, including the expansion of internal compliance and governance functions in the USA, demonstrate the seriousness with which Austal is taking this issue and its determination to meet and exceed its global risk and compliance responsibilities.

This ASX announcement has been approved and authorised for release by the Board of Austal Limited.

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About Austal:

Austal is Australia's global shipbuilder and defence prime contractor designing, constructing and sustaining some of the world's most advanced commercial and defence vessels.

For more than 30 years Austal has contracted more than 300 vessels for over 100 commercial and defence operators in 54 countries, worldwide.

Austal is Australia's largest defence exporter and first ASX-listed shipbuilder. Austal has industry-leading shipyards in Australia, the United States of America, Philippines and Vietnam with service centres worldwide, including the Middle East.

Austal delivers iconic monohull, catamaran and trimaran commercial vessel platforms – including the world's largest trimaran ferry and multiple defence programs such as the Littoral Combat Ship (LCS) and Expeditionary Fast Transport (EPF) for the United States Navy.

Austal has grown to become the world's largest aluminium shipbuilder and is Australia's largest defence exporter.

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