



**AUSTAL**

**APEC SENIOR OFFICIALS' PUBLIC PRIVATE  
DIALOGUE ON SERVICES (III)**

17 May 2015



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**Who is Austal?**

Austal is a global ship builder and defence prime contractor with industry leading capabilities in the development of both defence and commercial vessel platforms.

**REDEFINING  
MARITIME EXCELLENCE**



DRAFT



**Outline**

- Introduction
- Decision to Go to Philippines
- Business Experience
- People Experience
- Future
- Summary

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**Overview**

Founded in 1988 and listed on the Australian Securities Exchange in 1998, Austal is a leading defence prime contractor specialising in the design, construction and maintenance of high performance vessels for defence and commercial purposes with 250+ ships designed, built and delivered.

> Austal has a global footprint with strategically located shipyards and service facilities:

- Australia
- United States
- Philippines
- Europe
- Middle East
- Asia

> Austal's focus is on the delivery of three product platforms: Ships • Systems • Support

**SHIPS**



**SYSTEMS**

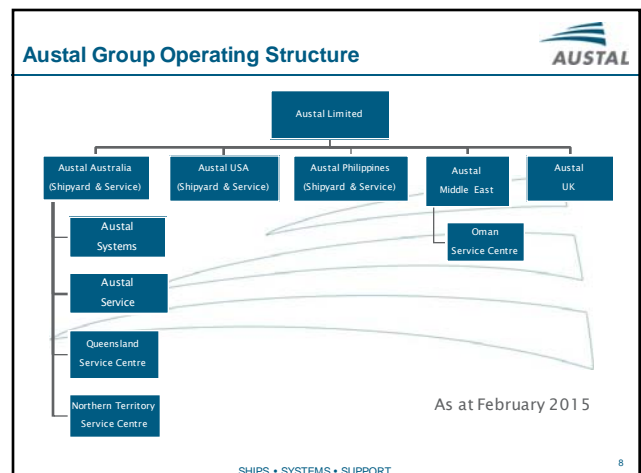
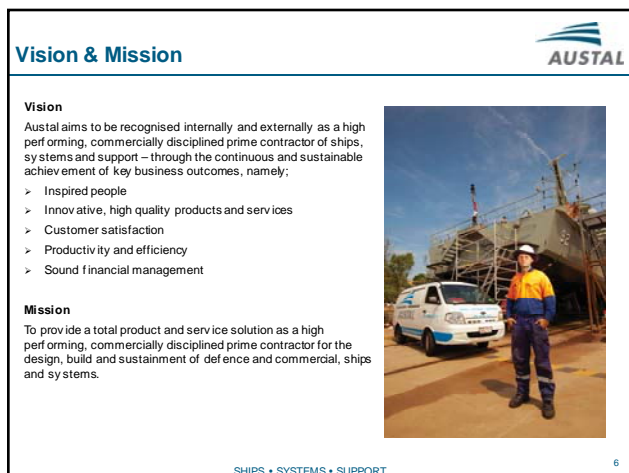
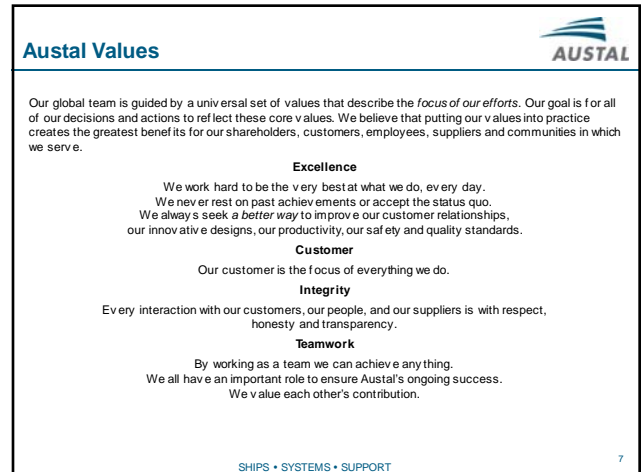


**SUPPORT**



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### Austal Philippines

## DECISION TO GO TO PHILIPPINES

WELCOME  
**H.E. BENIGNO S. AQUINO III**  
PRESIDENT OF THE REPUBLIC OF THE PHILIPPINES

THE AUSTAL PHILIPPINES SHIPYARD OPERATIONS GRAND OPENING  
BY VICE PRESIDENT LEONIL BRONC ADELINO, AUSTAL PHILIPPINES, Cebu City

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### Austal Philippines

Austal Philippines is located in the Municipality of Balamban which is approximately 64 km northwest of Cebu City.

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### Decision to Go to Philippines

#### Why did we relocate the business?

- Decision to relocate any business, is a big one
- Commercial Shipbuilding operations were based in Western Australia
- Exposed to the high AUD and the inflationary pressures of competing against mining, oil and gas companies for skilled labour in a resource rich state
- Resulted in a significant deterioration of Austal's competitive position
- We need to relocate our business

#### Macro Objectives

- Locate closer to our customers (Asia Pacific, the Middle East & Europe)
- Reduce or eliminate our exposure to AUD
- Re-set our cost base to a competitive level at which we could compete
- Operate in a stable economic and legislative environment

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## Decision to Go to Philippines



### Shipyard Search

- We undertook a comprehensive search and investigated several existing shipyards across a range of countries
- We identified a dormant shipyard in the Philippines that was previously operated by a competitor of Austal, who built similar types of ships
- We were attracted to the Philippines shipyard for two key reasons
  - Re-commissioning a brownfields site enabled us to avoid the challenges of building a new shipyard, at the same time as learning how to do business in a new country, build a world orce and build > US\$50M of ships.
  - Existence of a skilled labour market
- Austal employed > 200 Filipinos in Western Australia between 2006 – 2008 when the labour market was tight
- Great experience working with Filipinos, they are hardworking, capable and productive people
- We dedicated the majority of 2011 to conducting detailed due diligence on the shipyard and the business environment
- Ultimately we found all of the key elements that we were searching for by moving to the Philippines



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## Austal Philippines



- In late 2011, Austal acquired a shipyard in the Philippines to regionalise its manufacturing base for commercial vessels.
- It started its operations on February 2012 with about 21 employees.
- Has a land area of 100,000 sqm



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## Decision to Go to Philippines



### Timeline

- We signed contracts to take over the shipyard in November of 2011
- Immediately began a major refurbishment project of the facilities that had been dormant for two years
- We mobilised tools, equipment and materials and recruited the first local employees in January of 2012.
- We cut metal on the first vessel in February and cut metal on the second vessel in May



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## Our Vision



A world class shipyard with sustainable profitability.



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## Our Mission

We are the leader in the aluminium vessel construction in the global market.



Our **People** are uniquely guided by the values of Excellence, Customer, Integrity, and Teamwork. We are constantly engaged to have a consistent drive for excellence towards our ultimate goal.



Our **Products** are the best ships that are forged with the highest quality standards, delivered on time, and made at a competitive cost.



Our **Property** is a world-class shipyard that is clean, orderly, hazard free, and visually managed. Our facility will establish our reputation as a global contender for the needs of our customers.

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## Business Experience

### Business registration

- Austal shipyard is located in a PEZA zone
- PEZA provide a single point of co-ordination for all registrations and government interaction
- Registration was streamlined and efficient and was completed without any major challenges

### Investment incentives


- Able to access to attractive investment incentives by locating in a PEZA zone
- Including an introductory income tax holiday
- Duty free importation of tools and materials on the basis that the majority of our product would be for export markets

### Intangible support

- Plenty of support at a national, provincial and municipal level
- Welcomed with open arms

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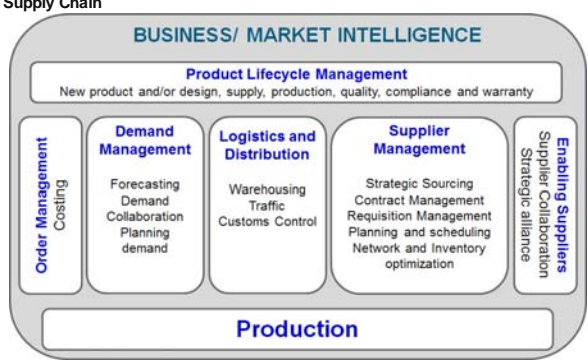
## Process Flow



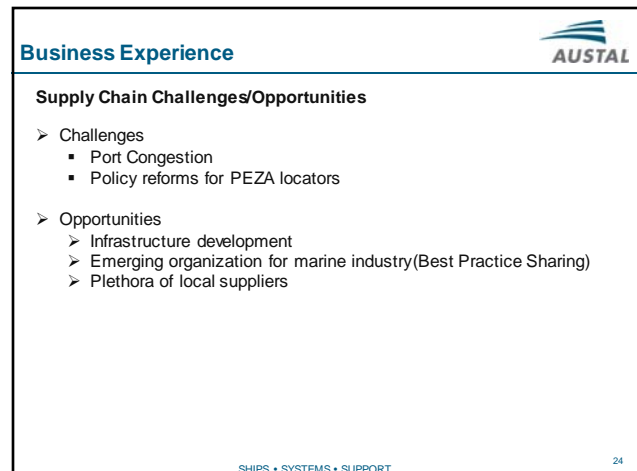
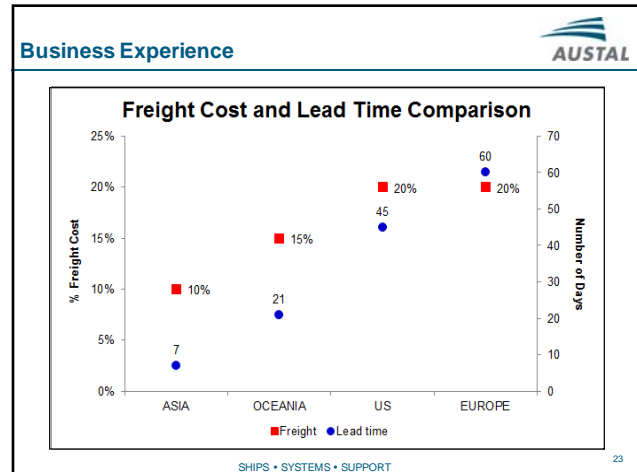
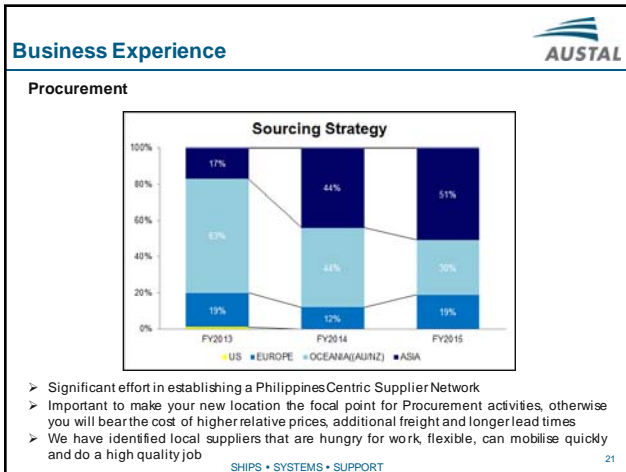
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## Business Experience


### Supply Chain



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## Business Experience



**Banking & Legal**

- Modern efficient banking system
- Sought legal advice as required but the legal system hasn't been difficult to navigate


**Labour Law**

- Logical and well balanced between protecting the interests of the workers and being functional for business

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## People Experience




**Cultural elements**

- At a cultural level Filipinos are friendly and welcoming of expatriates into their community and have a genuine desire to display hospitality
- I have devoted management attention to creating a blend of the Filipino and Austal cultures
- Ensuring that expatriates understand that they are guests of the Filipino people
- Recruiting local management and adopting local customs go a long way in assimilating with the local culture

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## People Experience



**Language**

- English is widely spoken and therefore communication has been significantly easier.


**Business unit with local resources**

- Self sufficiency has been critical to our success. No-one cares more about what happens in our business in the Philippines than the Austal people working in the Philippines
- Design & Production supported by local Procurement, Human Resources and Finance personnel
- My advice is to invest in talent in the Philippines and not to support day to day operations remotely from Australia
- Leaders need to be on the ground living and breathing everything that happens

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## People Experience



**Workforce**

- Investment decision was predicated on the availability of a large highly skilled labour force in the local community
- Our premise was correct and we now have ~300 direct employees across the production trades and all of the support functions.
- We still have a large pipeline of applicants and I expect it to be at a greater number in the next fiscal year
- We have established a core team, many of whom previously worked for Austal in Australia and they are rewarding us with great loyalty and a depth of talent that exceeds our 3 years on the ground.
- I factored lower productivity levels into the vessel Budgets due to our start-up status but we are still aiming to reach and beat our Australian benchmarks. We are looking at 1:1 manpower ratio with Australia for the next fiscal year

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## People Experience



Technical Skills Development Program (TSDP) – September 2013  
Classroom Lectures



## Workshops



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## People Experience



## AP Leadership Team

HR	Design	Programs	SCM	Production	Quality	Finance
 <p><b>Kristeen Serenella</b> Human Resources Manager</p>	 <p><b>Sam Stevens</b> Design Manager</p>	 <p><b>TBI</b> Programs Manager</p>	 <p><b>Rita Menzies</b> Supply Chain Manager</p>	 <p><b>Frojan Begun</b> Production Manager</p>	 <p><b>Mark Peltier</b> Ships Construction Manager</p>	 <p><b>Charlotte Pedraza</b> Quality &amp; Lean Manager</p>
 <p><b>Joseph B. Turano</b> President and General Manager</p>						

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## People Experience



## Management

- Short term establishment has required expatriates
- Expatriates – expensive and are not a long term solution
- I have focused on recruiting and developing local leaders at all levels of the business from Supervisors up to my level. “All Filipino Team”
- I'm proud to have recruited and worked with local Managers who could match it anywhere in the world

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## People Experience



## Remuneration and Benefits

- We have conducted extensive research to set the remuneration and benefits structure
- We wanted to be competitive but not disruptive to the local labour market
- The Filipinos have responded well to pay for performance, but you have to put your money where your mouth is and following through on promises has built credibility.

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## People Experience



## Corporate Social Responsibility

- Many worthwhile causes when thinking about Corporate Social Responsibility
- Responsibility to our community and the shareholder
- Easy to identify initiatives in areas such as health, environment, education & training that are consistent with both the community and shareholders.
- We have already developed and implemented several programs in the community

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## Corporate Social Responsibility



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## Corporate Social Responsibility



## AUSTAL NURSERY PROJECT – May 2013



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## Corporate Social Responsibility




SCRAP WOOD DONATION to  
CANSOMOROY ELEMENTARY SCHOOL – July 23, 2013





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**Corporate Social Responsibility** 

**TYPHOON HAIYAN VICTIM RELIEF OPERATION – November 23, 2013**

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**Corporate Social Responsibility** 

**Brigada Eskwela and Tree Planting Activities  
May 17, 2014**





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**Corporate Social Responsibility** 

**MANGROVE PLANTING 2014**  
In cooperation with  
Davao Industrial Park Developers, Inc.  
Davao Region Wetlands Monitoring Team



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**Corporate Social Responsibility** 

**Donation of Wood, Painting and Cleaning Materials**  
Beneficiary: Guinabinhan Primary School  
Date: May 22, 2014




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### Corporate Social Responsibility







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### Future



**Order Book**

- The future is strong and exciting
- Our Order book in the Philippines now consists of two 45m vessels ~US\$28M and small components for vessels being constructed in Australia generating a total revenue for FY15 of US\$36M
- A number of contracts are at various stages of negotiation for the design, construction and support of commercial and offshore vessels, for operators worldwide




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### Corporate Social Responsibility



#### ERT COMPETITION – May 03, 2014






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### Future

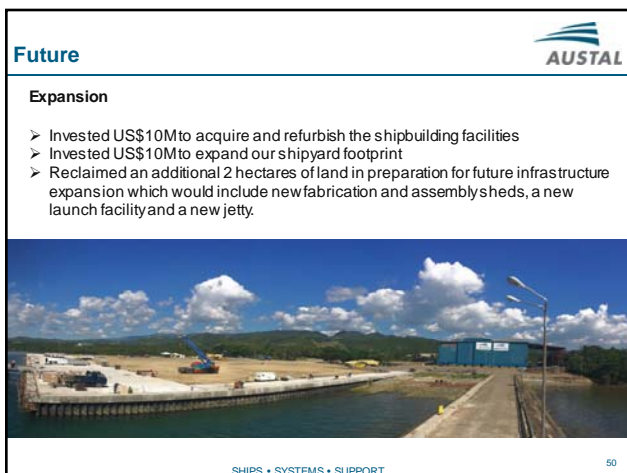
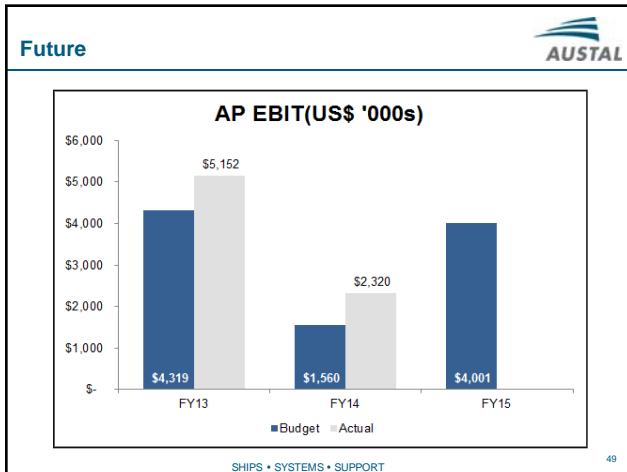


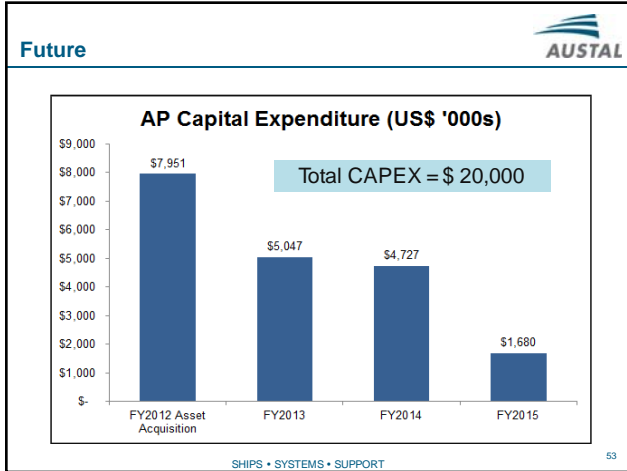
#### AP Revenue (US\$ '000s)

Fiscal Year	Budget	Actual
FY13	\$41,038	\$41,038
FY14	\$29,318	\$30,534
FY15	\$38,045	\$36,366

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### Summary

Austal's establishment in the Philippines has been a success and is meeting expectations.

- Well located in central Asia
- Large highly skilled and trainable work force
- Strong cultural fit between Australia and the Philippines
- The Philippines is business friendly and offers a stable economic environment
- People have strong work ethics
- It's easy to build a business case for setting up in the Philippines, but it is a two-way street after all, so make sure that you know what it is that you are bringing to the Philippines in return.

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