



Austal Limited (ASX: ASB) Corporate Governance Statement

Introduction

Austal Limited (the **Company**), its Board of Directors (the **Board**) and senior management are committed to the best practices of corporate governance, ethical standards and risk management. This Corporate Governance Statement sets out the Company's approach to corporate governance.

In reporting on corporate governance for the financial year ended 30 June 2015, the Company has elected to place this Corporate Governance Statement on its website instead of including it in the Annual Report. However, further information about the Directors and the Company's approach to corporate governance can be found elsewhere on the Company's website and in its Annual Report.

The Board of Austal Limited is responsible for guiding and monitoring of the consolidated entity on behalf of shareholders. Oversight and management of the Company's corporate governance policies and procedures is shared between the Board's Audit & Risk and Nomination & Remuneration subcommittees.

This Corporate Governance Statement is now structured to specifically align with the ASX Corporate Governance Council's (the Council) Principles and Recommendations (the "**ASX Recommendations**"), which are as follows:

- Principle 1** Lay solid foundations for management and oversight
- Principle 2** Structure the Board to add value
- Principle 3** Act ethically and responsibly
- Principle 4** Safeguard integrity in financial reporting
- Principle 5** Make timely and balanced disclosure
- Principle 6** Respect the rights of security holders
- Principle 7** Recognise and manage risk
- Principle 8** Remunerate fairly and responsibly

In accordance with the Australian Securities Exchange Limited ("ASX") Listing Rules ("ASX Listing Rules"), this Statement also reports on:

- the extent to which the Company has followed the Corporate Governance Recommendations contained in the ASX Recommendations; and
- the reasons for any departures from the ASX Recommendations, in compliance with the "if not, why not" regime.

The Company complies with the majority of the ASX Recommendations. In addition to setting out the particular ASX Recommendations addressed at the top of each section, a checklist summarising the Company's compliance with those Recommendations and cross-referencing to the relevant sections of this Corporate Governance Statement appears at the end of this Corporate Governance Statement.

Principle 1 – Lay solid foundations for management and oversight

ASX Recommendation addressed:	1.1
-------------------------------	-----

1.1 Board roles and responsibilities

In accordance with the Company's constitution, the Board gives direction and exercises judgment in setting the Company's objectives and overseeing their implementation. The Board's functions are set out on the 'Corporate Governance' section on the Company's website and include:

- adopting a Strategic Plan for the Company, including general and specific goals and reviewing actual results against that plan, which is aimed at meeting stakeholders' objectives and managing business risk.
- Establishing and maintaining policies directed to ensuring that the Company complies with the law and conforms to the highest standards of financial and ethical behaviour.
- Reviewing the Company's reporting systems and internal controls (both operational and financial) together with appropriate monitoring of compliance activities to determine these systems and controls are adequate and appropriate.
- Ensuring that significant risks are identified, assessed, appropriately managed and monitored.
- The appointment, performance assessment and, if necessary, removal of members of the executive management team.
- Determining and implementing appropriate delegations of authority from the Board to the management to enable their respective functions to be effectively carried out.
- Agreeing key performance indicators (both financial and non-financial) with management and monitoring progress against these indicators.
- Reporting to shareholders.

1.2 Functions of Management

Other than as specifically reserved to the Board, responsibility for the operation and administration of the Company is delegated by the Board to the CEO and the executive management team, who are accountable to the Board through the CEO.

The functions reserved to senior management are summarised as follows:

Functions	CEO (Managing Director) Responsibilities
Corporate strategy, reporting and operations	<ul style="list-style-type: none"> • Develop strategies for the Group to maintain a strong balance sheet and sound credit rating over time and make recommendations to the Board for preservation and increase in shareholder value • Review and make recommendations to the Board on significant operational changes, major capital expenditure, and acquisition and divestments above delegated thresholds • Develop the Group's annual budget for Board approval • Manage and administer day to day operations of the Group within the Board approved strategies, risk appetite and budget • Exercise additional powers as delegated by the Board
People	<ul style="list-style-type: none"> • Assign responsibilities clearly to the Austal executive management team and ensure accountability for those responsibilities is with the people best able to

	meet them
	<ul style="list-style-type: none"> • Drive continuous improvement in the executive team and the organisation as a whole, and supervise and report to the Board on the performance of executive management • Ensure proper allocation of resources to maximise returns to shareholders while mitigating business exposure
Risk and compliance	<ul style="list-style-type: none"> • Develop and maintain the Group's risk management systems, including internal compliance and control mechanisms • Demonstrate to the Board that the risk management systems are working effectively
Stakeholder communications	<ul style="list-style-type: none"> • Drive compliance with the Group's compliance and other continuous disclosure obligations in accordance with Board-approved policies • Regularly report to the Board with timely and effective information, such that the Board is fully informed to discharge its responsibilities

1.4 Performance review

ASX Recommendations addressed:	1.3, 1.4, 1.6, 1.7
--------------------------------	--------------------

The performance of key executives is reviewed regularly against both measurable and qualitative indicators. All executives are subject to formal performance reviews conducted by the CEO on an annual basis, and the results of those reviews are shared with the Nomination and Remuneration Committee as appropriate. The performance criteria against which they are assessed are aligned with the financial and non-financial objectives of the Company.

Each Board member is also the subject of annual performance evaluation against both measurable and qualitative indicators. The results of such assessments are managed by the Company Chairman and the Chairman of the Nomination & Remuneration subcommittee to ensure any opportunities to broaden the Board's collective capability are addressed. The performance criteria against which Directors are assessed are also aligned with the financial and non-financial objectives of the Company. Directors who would benefit from additional professional development may be offered additional training or opportunities. Directors whose performance is consistently unsatisfactory may be asked to resign.

The performance of both the executives and Directors was assessed during the year in accordance with the above process and the Board is satisfied with the outcome of those assessments and the performance of the Company's executives and Directors.

The Company has written engagement letters in place with each director and all executive managers based in Australia and the Philippines. As is customary in the USA, the engagement of senior executives in the Company's US operations is not necessarily the subject of formal written agreements.

In accordance with ASX Recommendation 1.4, the Company Secretary has a direct reporting line to the Chairman on matters to do with Board operations. Each director is able to communicate directly with the Company Secretary, and appointment or removal of the Company Secretary is by resolution of the Board.

1.5 Diversity at Austal

ASX Recommendation addressed:	1.5
-------------------------------	-----

Austal recognises that developing a diverse workforce is critical in building its organisational capability and maintaining a high level of performance, and values the distinctive skills, experiences and perspectives each individual brings to the workplace. The Company is committed to ensuring all employees are treated

with respect and given equal opportunities for employment and development, and the Board has adopted an Equity and Diversity policy which can be found on the Company's website.

In accordance with the Company's Code of Conduct, employment and remuneration are based on merit, qualifications, skills and experience so that equally qualified personnel can be confident of their standing in the Company, and value to the Company, regardless of their gender, racial background, age, religious beliefs or other values.

The Board has not set specific targets for diversity requirements during the course of the year, but focuses on improving diversity through workplace practices including:

- the employment of international workers through 457 visas, and assistance in domiciling those workers in Australia upon visa expiry.
- Employment of personnel with particular needs (for example, persons with hearing impairments), both through the Commonwealth Rehabilitation Service and through direct recruitment.
- Offering flexible working hours.
- Employment of part time workers.

In addition, the Company supplements these practices with specific initiatives targeted at increasing the number of women in the workplace, particularly in blue collar and apprenticeship roles. The initiatives adopted include:

- partnerships with TAFEs and Apprentice-Centre to gain access to female apprentices;
- building relationships with high-schools in the area surrounding the Company's Australian operations in Henderson, Western Australia to provide opportunities to young women as part of encouraging them to select a career in a trade or traineeship;
- interaction with universities to assist in presenting the Company as an employer that will provide a career pathway for female engineers and business graduates;
- provision of ongoing training with management and personnel to help identify any natural gender bias that exists and implement measures to overcome this in areas of recruitment, team dynamics and development opportunities;
- implementation of mentoring program for female talent within the business

The Company emphasises equal opportunity for employment. While there are currently no women on the Company Board, some of the Company's wholly-owned subsidiary operating companies have women directors and women are relatively well represented in other roles. Women currently occupy professional, management and senior management roles across the business in the following numbers:

Business Unit	% of Senior Management roles filled by women	%of Management roles filled by women	% of professional roles filled by women
Australian Operations	5%	15%	15.3%
USA Operations	0%	12%	23%
Philippines Operations	20%	30%	22%

For the purposes of the above table, anyone who is either a direct report to the CEO, or a direct report to a direct report to the CEO is considered to be a Senior Manager. Managers below this level in the organisational structure are deemed to be 'management roles'. This is consistent with the descriptors used in the Company's report to the Federal Government's Workplace Gender Equality Agency (**WGEA**).

The Company has obtained certification of compliance with the *Workplace Gender Equality Act 2012 (Cth)* from the WGEA. A copy of the gender diversity report that the Company submitted to the agency can be found on the Company's website.

The Board will continue to embrace diversity within the Company's workforce as the Company and its activities grow and appropriately skilled candidates are available.

Principle 2: Structure the Board to add value

ASX Recommendations addressed:	1.2, 2.1, 2.2, 2.3, 2.4, 2.5, 2.6, 8.1
--------------------------------	--

2.1 Appointment of Directors

To ensure that the Board is well equipped to discharge its responsibilities it has established guidelines for the nomination and selection of Directors and for the operation of the Board. Identification of potential Board candidates is subject to the verification of the candidate's experience as well as informal references as to character and particular skills.

Proposed new Directors are nominated by the Nomination and Remuneration Committee and approved by the Board prior to being appointed. The appointment is until the next General Meeting of shareholders at which time the shareholders are required to approve the appointment. Details of each Director's experience and expertise are available on the Company's website, in the Directors Report as part of the Annual Report and, if a Director is put forward for re-election, in the relevant Notice of Annual General Meeting.

Newly appointed directors are all provided with relevant corporate governance and onboarding documentation prior to commencement with the Company, and are provided with a detailed synopsis of the business and operating environment by both the CEO and the Chairman as part of the appointment process.

Following their appointment, new directors are also familiarised with the Company's facilities, provided with training in the Special Security Agreement that exists between the Company and its US operating subsidiary and given briefings from the executive team on a regular basis.

2.2 Nomination and Remuneration Committee

The Nomination and Remuneration Committee has 3 members, comprised of two independent Directors and the Non-Executive Chairman. The Committee members are:

- Mr David Singleton (Committee Chair)
- Mr Giles Everist
- Mr John Rothwell AO

The Committee reviews and makes recommendations to the Board in relation to candidates for vacant Board positions, remuneration of Directors and key executives, Board evaluation processes and succession planning.

The Nomination and Remuneration Committee's functions are described in its charter, which is reviewed and updated regularly and published on the Company's website. In accordance with the committee charter, the Committee is responsible for identifying the skills and capabilities needed on the Board in the event of a Board vacancy arising. It is also responsible for ensuring that the Board possesses the required skills, experience and balance required for the Company to conduct its business in a manner consistent with the interests of shareholders. The Board therefore does not restrict itself to a single rigid skills matrix describing the skills required by the Board. Instead, Board requirements are regularly reviewed and assessed, and the Nomination & Remuneration Committee sets the requirements for a role as and when a vacancy arises in order to best address the Company's needs at a particular time.

For example, following the resignation of Mr Dario Amara in October 2014 and consistent with the Company's focus on defence shipbuilding and support, the Board determined that the Company would benefit from additional experience in the defence sector. This resulted in the appointment of Mr Jim McDowell who brings considerable expertise and experience in this area.

As part of its mandate to ensure the Board maintains the required skill set and breadth of representation, the Nomination & Remuneration committee also ensures that any opportunities for development that are identified as part of the annual Board evaluation exercise are appropriately addressed.

2.3 Independence

The ASX Recommendations provide that Directors are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgement.

In the context of Director independence, the Board considers 'materiality' from both the Company's and the individual Director's perspective. The determination of materiality is based on the Council's guidelines which include:

- whether a Director is a substantial shareholder of the Company, or affiliated with a substantial shareholder of the Company;
- whether the Director is employed or has previously been employed by the Company, the nature of that employment and the period (if any) between ceasing employment and commencing as a Director;
- whether the Director has been a member or principal of an organisation that has provided services or consulted to the Company within the last 3 years;
- whether the Director is, or is affiliated with a material supplier to or customer of the Company; and
- whether the Director has a material contractual relationship with the Company other than as a Director.

The above matters, along with any other qualitative factors which point to the actual ability of the Director to have an influence in shaping the direction of the Company, are considered when determining each Director's independence.

Based on the above criteria, the Board considers the following Directors are independent:

Name	Position
David Singleton	Non-executive Director
Giles Everist	Non-executive Director
Jim McDowell	Non-executive Director

Austal's Non-Executive Chairman is not classified as independent (as the term is used in the ASX Recommendations), however he is a founding Director of the Company and possesses extensive Australian shipbuilding experience, from which Austal's shareholders continue to benefit. Mr Rothwell has made a significant contribution to the development of the shipbuilding industry in Australia and continues to draw on his broad experience to add value to the Company. He has not been considered to be independent (as defined in the ASX Recommendations) at any point during his period as non-executive Chairman.

The Chairman's position is reviewed regularly by the Nomination and Remuneration Committee. Following the most recent review and in light of the above unique skills and experience he brings to the Company, it remains the Board's opinion that Mr Rothwell is the best candidate to Chair the Company.

Directors are required to disclose any actual or potential conflicts or material personal interests on their appointment to the Board. These disclosures are required to be kept up to date. Directors with material personal interests in matters that are before the Board are excluded from consideration of the matter and from related voting processes.

All Directors are entitled to seek independent professional advice at the Company's expense if required.

2.4 Outside Directorships

The number of outside Directorships held by Directors is considered as part of his or her appointment and retention. Unless exceptional circumstances apply, the Company follows the Council's guidelines for acceptance of outside Directorships by Executive and Non-Executive Directors.

None of the Company's current Directors have outside Directorship commitments that exceed the Council's guidelines.

2.5 Board and Committee meetings

The number of meetings of Directors (including meetings of committees of Directors) held during the year and the number of meetings attended by each Director was as follows:

	Meeting		
	Board	Audit & Risk Committee	Nomination & Remuneration Committee
Number of meetings held	6	4	3
Number of meetings attended			
John Rothwell	6	n/a	3
Andrew Bellamy ¹	6	4	3
David Singleton	6	3	3
Giles Everist	6	4	3
Jim McDowell ²	3	2	1
Dario Amara ³	2	1	n/a

Notes to this table:

1. Andrew Bellamy attended all Audit & Risk Committee and Nomination & Remuneration Committee meetings as a guest of each committee.
2. Jim McDowell was appointed as a director on 31 December 2014 and has attended all Board meetings since his appointment. He joined the Audit & Risk Committee in February 2015 and has attended all Audit & Risk Committee meetings since his appointment. He attended one meeting of the Nomination & Remuneration Committee as a guest of that committee.
3. Dario Amara retired as a director of the Company (and Chair of the Audit & Risk Committee) on 30 October 2014. Giles Everist replaced him as Chair of the Audit & Risk Committee.

Principle 3: Act ethically and responsibly

ASX Recommendation addressed:	3.1
-------------------------------	-----

3.1 Ethical standards and performance

The Board acknowledges the need for continued maintenance of the highest standards of corporate governance practice and ethical conduct by all Directors and employees of the Austal Group. The Company has adopted a Director's Code of Conduct under which Directors are expected to:

- act honestly and in good faith;
- exercise due care and diligence in fulfilling the functions of their office;
- use their powers to act in the best interests of the Company as a whole;
- avoid conflicts and make full disclosure of any possible conflict of interest;
- comply with the law;

- be independent in judgement and ensure all reasonable steps are taken to be satisfied as to the soundness of Board decisions;
- encourage the reporting and investigating of unlawful and unethical behaviour; and
- comply with the share trading rules and other Company policies.

The Company also has a Manager’s Code of Conduct that applies to all managers across the Austal Group. The Manager’s Code of Conduct contains requirements that are similar to those contained in the Director Code of Conduct, adjusted to reflect the different roles and expectations arising out of various positions of employment within the Company. Both Codes of Conduct are published on the Company’s website.

3.2 Share Trading Policy

Directors and all employees are required to comply with the Company’s share trading policy, which may from time to time be adjusted by the Board and applies in addition to legislative requirements and the ASX Listing Rules. The Company’s Share Trading Policy was reviewed and amended in 2015.

The Company’s share trading policy is published on its website and includes:

- a restriction on trading in Company shares to the period of four months following the release of half year and full-year reports. Directors and employees are also restricted from trading in Company shares for 24 hours following any announcement by the Company to the ASX;
- any Director or executive manager intending to buy or sell shares in the Company or any company in which the Company has an interest is required to notify the Chairman or the Company Secretary of his/her intentions before proceeding with the transaction; and
- Directors, managers and staff are not permitted to deal in the Company’s securities if they are in possession of material information which is not available to the share market, but if it were, may impact the value at which the securities are traded.

Principle 4: Safeguard integrity in corporate reporting

ASX Recommendations addressed:	4.1, 4.2, 4.3
--------------------------------	---------------

4.1 Audit & Risk Management Committee

The Company’s Audit & Risk Management Committee has 3 members, all of whom are independent Non-Executive Directors. They are:

- Mr Giles Everist (Committee chair)
- Mr David Singleton
- Mr Jim McDowell

The Committee also benefits from the regular attendance of the Company’s auditors at Committee meetings.

The Audit & Risk Management Committee’s functions are described in its charter, which is reviewed and updated regularly and published on the Company’s website. They include:

- reviewing the Company’s financial reporting processes to ensure the integrity, accuracy and timeliness of the Company’s financial accounts;
- reviewing the internal controls, policies and procedures the Company uses to identify and manage business risks;

- reviewing and shaping the policies and procedures for ensuring compliance with relevant regulatory and legal requirements, and good corporate governance practice;
- ensuring compliance with statutory reporting responsibilities;
- assessing the effectiveness of the management of business risk and reliability of management reporting; and
- reporting any significant deficiencies in the above to the Board.

In addition to the above, the Audit & Risk Management Committee (in accordance with its Charter) annually reviews the performance of the external auditor on behalf of the Board, focusing particularly on:

- the scope and rigour of the audit;
- The quality of the service provided, considered from the shareholders' point of view.
- The independence of the auditor.

If the Board considers a change in auditor is necessary, it will make a recommendation to shareholders to do so. Such recommendation would be the subject of shareholder approval in a General Meeting in accordance with Corporations Law requirements.

4.2 Executive confirmation of accounts

Prior to the Board approving the Company's full- and half-year financial results, the Audit & Risk Committee ensures that both the CEO and Chief Financial Officer provide confirmation that the results presented:

have been prepared in accordance with relevant accounting standards; and give a true & fair view of the Company's financial position,

and that these views have been formed on the basis of a sound system of risk management and control that the Company has implemented and is managing appropriately. The Board is comfortable that the declarations made by the CEO and CFO in accordance with s295A are based on a sound process. To ensure the appropriate level of confidence in this process, executives across the business are required to make similar declarations to the CEO before the declaration is made to the Board.

4.3 Auditor attendance at AGM

It is Company policy for the auditor's lead engagement partner to be present at the AGM in the event of questions about the conduct of the audit, the preparation and content of the auditors' report, accounting policies adopted by the Company or auditor independence. The Company's legal adviser is also present at the AGM.

Principle 5: Make timely and balanced disclosure

ASX Recommendation addressed:	5.1
-------------------------------	-----

5.1 Continuous disclosure

Austal Limited has established written policies and procedures on information disclosure. The focus of these procedures is on compliance with ASX disclosure commitments and improving access to information for all investors. The objective is to ensure information announced by the Company is timely, factual, clear and contains all information relevant to shareholders and potential investors. The Continuous Disclosure Policy is published on the Company's website.

The CEO, with oversight from the Audit & Risk Management Committee, has responsibility for:

- making sure that the Company complies with continuous disclosure requirements;

- overseeing and co-ordinating disclosure of information to the stock exchange, analysts, brokers, shareholders, the media and the public; and
- educating Directors and staff on the Company's disclosure policies and procedures and raising awareness of the principles underlying continuous disclosure.

The Company releases all price sensitive information through the ASX, whether as part of regulatory reporting such as financial results, Directors interests and changes in shareholdings, or other operational information that is relevant to shareholders or anyone considering investment in the Company.

Principle 6: Respect the rights of security holders

ASX Recommendations addressed:	6.1, 6.2, 6.3, 6.4
--------------------------------	--------------------

6.1 Shareholder communications

The Board is ultimately responsible for ensuring that the shareholders are informed of all major developments affecting the Company's affairs. The CEO is primarily responsible for liaising with the media and co-ordination of Austal's Annual Report and the AGM. The Company's share registry, communications to shareholders and ASX releases are co-ordinated by the CEO and Company Secretary.

6.2 Key investor engagement activities

(a) Annual General Meeting

Austal's AGM provides shareholders with the opportunity to vote on shareholder resolutions recommended by the Board, hear directly from the Board and CEO and also to ask questions of the Board. The Chairman and CEO's AGM presentations and voting results are also released to the ASX, and available on Austal's website.

Shareholders who are unable to attend the Company's AGM are entitled to vote online or by mail or facsimile before the meeting, or appoint a proxy to attend and vote on their behalf. The proxy is also entitled to ask questions on the shareholder's behalf and the minutes of the meeting are retained by the Company at its registered office.

(b) Annual report

Austal's Annual Report is released to the ASX and made available on Austal's website. Hard copies are mailed to those shareholders who have requested them. Shareholders have the option of receiving the Annual Report as well as notices of meeting and other communication by mail or electronically, or simply by accessing the Company's website.

(c) Regular release of financial information

Each year, Austal announces full-year results in August and half-year results in February. Results are released to the ASX, and include supplementary briefings for media and the investment community. All ASX announcements and subsequent presentations are made available on Austal's website.

To assist in updating the market between the full and half-year results, Austal releases pertinent information on vessel contracts, construction milestones and deliveries, and other relevant information to the ASX throughout the year, as events occur.

(d) Investor briefings

To assist the broader investment community to have a full understanding of Austal's performance and strategies, Austal attends analyst briefings on a regular basis. These briefings typically focus on the financial performance and objectives of the Company overall and each business unit. The updates provide an opportunity for those in the investment community (including analysts, investors and shareholders) to speak directly with senior management. Detailed information is released to the ASX prior to the briefings, to ensure compliance with continuous disclosure obligations.

(e) Company website

The Company posts all ASX announcements on its website immediately after they are published by ASX and maintains that information on the website for 4 years. Announcements include the full content of all presentations made to analysts and industry conferences, which are lodged with ASX and published prior

to the presentation being given. The Company's website also includes other relevant news in the form of media releases, presentations and publications and events planning in order to ensure shareholders and interested parties are up to date with the Company's operations.

In addition to the above information, the Company also publishes and updates independent research and analysis into the Company conducted by JP Morgan, Macquarie Capital Securities Australia, Argonaut and Hartleys Australia to ensure stakeholders and those considering investment obtain a balanced view of the Company's affairs and future prospects.

The Company's website also provides information about corporate governance practices and strategies through a specific 'Corporate Governance' tab. Copies of relevant corporate governance policies, past and current annual reports, dividend reinvestment plans, director biographies and committee charters are also set out on the website.

(f) Shareholder enquiries

Shareholders are able to raise queries directly with the Company through an email link on the website (investors@austral.com), or by calling or writing to the company directly. Queries are generally referred to the Investor Relations team or Company Secretary as appropriate.

Principle 7: Recognise and manage risk

ASX Recommendations addressed:	7.1, 7.2, 7.3, 7.4
--------------------------------	--------------------

7.1 Risk management and internal control

The Board shapes and oversees the Company's risk appetite and reviews internal processes and procedures to satisfy itself that management has developed and implemented a thorough system of risk management and internal control. The Board has delegated the specific responsibility of overseeing the Company's risk profile and management to the Audit & Risk Committee. The Audit & Risk Committee is described in more detail in the discussion of Principle 2 above.

The Audit & Risk Committee charter provides that among other things, the Committee is responsible for:

- ensuring that appropriate systems and procedures are in place to identify, monitor and mitigate the Company's operational and financial risks.
- Reviewing management's internal control programmes, processes and policies which deal with the company's reporting systems.

In carrying out its risk management duties, the Audit & Risk Committee is entitled to seek any information it considers appropriate from any employee or any external party; require any employee to attend its meetings and obtain legal or other professional advice at the cost of the Company.

The Committee will, if necessary, institute special investigations and, if appropriate, hire special counsel or experts to assist.

A fundamental objective of management, overseen by the Board, is to ensure that risk management measures are embedded in its operations by investing in appropriate risk management tools and personnel, and educating the Company's employees in their roles in managing risk. To assist in meeting this objective the Company employs an internal controls manager, who has a direct line of report to the CEO and whose role is focused on the evaluation and improvement of the Company's risk management processes.

The Company is in the process of upgrading its business management systems to address opportunities for improvement that have been identified by the internal controls manager and the Board is confident these changes will have an impact on the Company's overall risk levels. The Company has also maintained its ISO 9001 certification for many years, with the Philippines operations gaining accreditation during the 2015 financial year.

7.2 Risk review

In addition to these measures aimed at procedural improvement, the Company undertakes regular risk reviews that principally address risks under the following categories as they relate to the specific Australian, US or Philippines shipyard operations:

- business risks inherent to the shipbuilding industry and the sustainability of the business;
- operating risks associated with sales, design and production;
- financial risks; and
- specific vessel risks.

The output of these reviews forms part of the Board’s development of corporate strategy to ensure that (i) risks are appropriately managed and (ii) the Company is in a position to act on strategic opportunities while minimising the Company’s exposure to those risks. The Board therefore reviews the Company’s risk management framework regularly as part of its strategic discussions, and as is customary this review was undertaken on multiple occasions during the 2015 financial year.

7.3 Risk Management

As a company with operations across the world Austal has an exposure to economic risks in the form of currency movements and supplier & customer security. The Company has a robust system of financial and procurement procedures and policies in place to ensure foreign exchange and procurement risks are managed effectively. These measures work to manage risk in combination with the Company’s codes of conduct and guidelines for employment, insurance program business management system to manage other risks that are not strictly financial.

The Company also has comprehensive Safety, Health and Environment Management Plans (“SHE Plans”) in place, overseen by a dedicated SHE team at each of its shipbuilding facilities. The SHE Plans underpin all of Austal’s operations and provide clarity on Austal’s general health, safety and environmental strategies. SHE teams have developed extensive SHE risk registers and are charged with ensuring the mitigation measures identified in the registers for each facility are implemented. The Company educates the entire workforce regarding the importance of safety, health and environmental management by requiring management involvement in all significant SHE incidents, whether or not that incident directly impacts that management function.

SHE risks and mitigation measures are regularly reviewed and updated, with regular SHE audits to ensure adoption of the measures identified. All risks and their mitigations are developed on the basis of seeking to understand their impact on the community (both internal and external), safety and the environment.

The Board is satisfied with the executive’s approach to and management of the risks faced by the business, based on the measures adopted for addressing those risks.

Principle 8: Remunerate fairly and responsibly

ASX Recommendations addressed:	8.2, 8.3
--------------------------------	----------

8.1 Remuneration strategy

It is the Company’s objective to provide maximum stakeholder benefit from the retention of a high quality Board and executive team by remunerating Directors and key executives fairly and appropriately with reference to relevant employment market conditions. The Company has implemented and will maintain a responsible, performance-based remuneration policy that is aligned with the long-term interests of its shareholders as set out in more detail in the Remuneration Report that appears in the Company’s Annual Report. The key objectives of the remuneration policy are to:

- strike the right balance between meeting shareholders’ expectations, paying our employees competitively, and responding appropriately to the regulatory environment;
- motivate executives to pursue the long term success of the Company; and
- clearly demonstrate the relationship between executives’ performance and remuneration, and the alignment of those 2 factors.

The Company’s approach to remuneration, including the structuring of executive remuneration and the role of incentives, is set out in detail in the Remuneration Report that appears in the Company’s Annual Report. Only executives and employees are eligible to participate in the Company’s incentive schemes (whether

those schemes are based on STI, LTI or employee share plans). Non-Executive Directors are paid a fixed fee which does not include equity-based remuneration, in order to maximise the benefit of their independence and eliminate the potential for conflicts of interest to arise.

Those employees who are eligible for performance rights under the Company's Long Term Incentive Plan are prohibited by the Plan rules from entering arrangements to limit the participant's exposure in relation to those entitlements.

Date and approval

This Corporate Governance Statement is current at 30 June 2015, which is the Company's balance date for the purposes of preparing its 2015 results. It was reviewed and approved by the Board on 25 August 2015 and remained accurate at that date of approval.



Corporate Governance Statement

Checklist against Recommendations of the ASX Corporate Governance Council

ASXCGC recommendation number	Recommendation	Compliant/Non-compliant	Reference in Corporate Governance Statement (CGS)
ASX Corporate Governance Council Principle 1 – Lay solid foundations for management and oversight			
1.1	A listed entity should disclose:		
	(a) the respective roles and responsibilities of its board and management; and	(a) Compliant	(a) CGS 1.1
	(b) those matters expressly reserved to the board and those delegated to management	(b) Compliant	(b) CGS 1.1
1.2	A listed entity should:		
	(a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and	(a) Compliant	(a) CGS 2.1
	(b) provide security holders with all material information in its possession relevant to a decision on whether or	(b) Compliant	(b) Director’s report, CGS 2.1

	not to elect or re-elect a director.		
1.3	A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.	Compliant	CGS 1.4
1.4	The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.	Compliant	CGS 1.4
1.5	<p>A listed entity should:</p> <p>(a) have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them;</p> <p>(b) disclose that policy or a summary of it; and</p> <p>(c) disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them and either:</p> <p style="padding-left: 40px;">(1) the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior</p>	<p>(a) Non-compliance explained in CGS</p> <p>(b) Compliant</p> <p>(c) Non-compliance explained in CGS</p> <p style="padding-left: 40px;">1. Compliant</p> <p style="padding-left: 40px;">2. Compliant</p>	<p>(a) CGS 1.5</p> <p>(b) CGS 1.5</p> <p>(c) CGS 1.5</p>

	<p>executive” for these purposes); or</p> <p>(2) if the entity is a “relevant employer” under the Workplace Gender Equality Act, the entity’s most recent “Gender Equality Indicators”, as defined in and published under that Act.</p>		
1.6	<p>A listed entity should:</p> <p>(a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and</p> <p>(b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.</p>	<p>(a) Compliant</p> <p>(b) Compliant</p>	<p>(a) CGS 1.4</p> <p>(b) CGS 1.4</p>
1.7	<p>A listed entity should:</p> <p>(a) have and disclose a process for periodically evaluating the performance of its senior executives; and</p> <p>(b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process</p>	<p>(a) Compliant</p> <p>(b) Compliant</p>	<p>(a) CGS 1.4</p> <p>(b) CGS 1.4</p>
ASX Corporate Governance Council Principle 2: Structure the Board to add value			
2.1	<p>The board of a listed entity should:</p> <p>(a) have a nomination committee which:</p> <p>(1) has at least three members, a majority of whom are independent directors; and</p>	<p>(a) Compliant</p>	<p>(a) CGS 2.2, 2.5, Directors Report</p>

	<p>(2) is chaired by an independent director, and disclose:</p> <p>(3) the charter of the committee;</p> <p>(4) the members of the committee; and</p> <p>(5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; OR</p> <p>(b) if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.</p>		
2.2	A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.	Non-compliance explained in CGS	CGS 2.2
2.3	A listed entity should disclose:		
	<p>(a) the names of the directors considered by the board to be independent directors;</p> <p>(b) if a director has an interest, position, association or relationship of the type described in Box 2.3 but the board is of the opinion that it does not compromise the independence of the director, the nature of the</p>	<p>(a) Compliant</p> <p>(b) Compliant</p>	<p>(a) CGS 2.3, Directors Report</p> <p>(b) CGS 2.3, Directors Report</p>

	<p>interest, position, association or relationship in question and an explanation of why the board is of that opinion; and</p> <p>(c) the length of service of each director.</p>	(c) Compliant	(c) Directors report
2.4	A majority of the board of a listed entity should be independent directors.	Compliant	CGS 2.3
2.5	The chair of the board of a listed entity should be an independent director and in particular, should not be the same person as the CEO.	Non-compliance explained in CGS.	CGS 2.3
2.6	A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.	Compliant	CGS 2.1
ASX Corporate Governance Council Principle 3 – act ethically and responsibly			
3.1	<p>A listed entity should:</p> <p>(a) have a code of conduct for its directors, senior executives and employees; and</p> <p>(b) disclose that code or a summary of it.</p>	<p>(a) Compliant</p> <p>(b) Compliant</p>	<p>(a) CGS 3.1</p> <p>(b) CGS 3.1</p>
ASX Corporate Governance Council Principle 4 – safeguard integrity in corporate reporting			
4.1	<p>The board of a listed entity should:</p> <p>(a) have an audit committee which:</p>	(a) Compliant	(a) CGS 2.5, 4.1, Directors Report

	<p>(1) has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and</p> <p>(2) is chaired by an independent director, who is not the chair of the board,</p> <p>and disclose:</p> <p>(3) the charter of the committee;</p> <p>(4) the relevant qualifications and experience of the members of the committee; and</p> <p>(5) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; OR</p> <p>(b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.</p>	(b) Not applicable	
4.2	The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the	Compliant	CGS 4.2

	opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.		
4.3	A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.	Compliant	CGS 4.3
ASX Corporate Governance Council Principle 5 – make timely and balanced disclosure			
5.1	A listed entity should: (a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and (b) disclose that policy or a summary of it.	(a) Compliant (b) Compliant	(a) CGS 5.1; Company website (b) CGS 5.1; Company website
ASX Corporate Governance Council Principle 6 – Respect the rights of security holders			
6.1	A listed entity should provide information about itself and its governance to investors via its website.	Compliant	CGS 6.1, 6.2
6.2	A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.	Compliant	CGS 6.2
6.3	A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.	Compliant	CGS 6.2
6.4	A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.	Compliant	CGS 6.2

ASX Corporate Governance Council Principle 7 – recognise and manage risk			
7.1	<p>The board of a listed entity should:</p> <p>(a) have a committee or committees to oversee risk, each of which:</p> <p>(1) has at least three members, a majority of whom are independent directors; and</p> <p>(2) is chaired by an independent director,</p> <p>and disclose:</p> <p>(3) the charter of the committee;</p> <p>(4) the members of the committee; and</p> <p>(5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; <u>OR</u></p> <p>(b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity’s risk management framework.</p>	<p>(a) Compliant</p> <p>(b) Not applicable</p>	<p>(a) CGS 7.1, Directors Report</p>
7.2	<p>The board or a committee of the board should:</p> <p>(a) review the entity’s risk management framework at least annually to satisfy itself that it continues to be sound; and</p> <p>(b) disclose, in relation to each reporting period, whether</p>	<p>(a) Compliant</p> <p>(b) Compliant</p>	<p>(a) CGS 7.1, 7.2, 7.3</p> <p>(b) CGS 7.1, 7.2, 7.3</p>

	such a review has taken place.		
7.3	<p>A listed entity should disclose:</p> <p>(a) if it has an internal audit function, how the function is structured and what role it performs; OR</p> <p>(b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes</p>	<p>(a) Compliant</p> <p>(b) Compliant</p>	<p>(a) CGS 7.1, 7.2, 7.3</p> <p>(b) CGS 7.1, 7.2, 7.3</p>
7.4	A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.	Compliant	CGS 7.3
ASX Corporate Governance Council Principle 8 – Remunerate fairly and responsibly			
8.1	<p>The board of a listed entity should:</p> <p>(a) have a remuneration committee which:</p> <p>(1) has at least three members, a majority of whom are independent directors; and</p> <p>(2) is chaired by an independent director,</p> <p>and disclose:</p> <p>(3) the charter of the committee;</p> <p>(4) the members of the committee; and</p> <p>(5) as at the end of each reporting period, the number of times the committee met throughout the</p>	(a) Compliant	(a) CGS 2.1, Directors Report

	<p>period and the individual attendances of the members at those meetings; OR</p> <p>(b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.</p>	(b) Not applicable.	(b) Not applicable
8.2	A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.	Compliant	CGS 8.1
8.3	<p>A listed entity which has an equity-based remuneration scheme should:</p> <p>(a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and</p> <p>(b) disclose that policy or a summary of it.</p>	Compliant	CGS 8.1