

AUSTAL LIMITED

ACN 009 250 266

Notice of Annual General Meeting

and

Agenda

and

Explanatory Memorandum

Date of Meeting: Thursday 30 October 2014

Time of Meeting: 3.00 pm (WST)

Place of Meeting: Fremantle Sailing Club
Marine Terrace
Fremantle
Western Australia

This Notice of Annual General Meeting and accompanying Explanatory Memorandum should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their accountant, solicitor or other professional adviser prior to voting.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that an Annual General Meeting of the Shareholders of Austal Limited will be held at the **Fremantle Sailing Club, Marine Terrace, Fremantle, Western Australia** on **Thursday 30 October 2014 at 3.00 pm (WST)** for the purpose of transacting the business referred to on the pages following this Notice of Annual General Meeting.

Agenda

1. **Opening of the Annual General Meeting by the Chairman – Mr John Rothwell**
2. **Operating and financial overview by the Chief Executive Officer – Mr Andrew Bellamy**
3. **Directors' Report and financial statements**

Receipt of the consolidated financial statements of Austal Limited (the **Company**) and its subsidiaries for the year ended 30 June 2014 together with the Directors' declaration and Report in relation to that financial year and the auditors' report on those financial statements.

4. **Resolution 1 – Adoption of the Remuneration Report**

To consider and, if thought fit, to pass the following as an **ordinary resolution**:

“That the Remuneration Report for the year ended 30 June 2014 be adopted.”

Note: Although section 250R(3) of the *Corporations Act 2001* (Cth) (**Corporations Act**) provides that the vote on this Resolution is advisory only and does not bind the Directors, there are potentially serious consequences associated with a "No" vote greater than 25%. Please see section 1 of the Explanation Memorandum for details.

Voting Exclusion Statement

To the extent required by section 250R of the Corporations Act, the Company will disregard any votes cast (in any capacity) on this Resolution by or on behalf of a member of the key management personnel (“KMP”), details of whose remuneration are included in the Remuneration Report, or that KMP’s closely related party unless the vote is cast:

- (a) *as a proxy for a person entitled to vote on this Resolution in accordance with a direction on the proxy form; or*
- (b) *by the chair of the meeting and the appointment of the chair as proxy does not specify the way the proxy is to vote on this Resolution and expressly authorises the chair to exercise the proxy even though this Resolution is connected directly or indirectly with the remuneration of a member of the KMP.*

5. **Resolution 2 – Approval of the issue of Shares to Mr Andrew Bellamy**

To consider and, if thought fit, to pass the following as an **ordinary resolution**:

“That for the purposes of Listing Rule 10.11 and for all other purposes, Shareholders approve the issue of:

1. *227,634 fully paid ordinary Shares to Mr Andrew Bellamy (or his permitted nominees) as fixed equity-based remuneration for the 2014 financial year; and*

2. *A further number of fully paid ordinary shares to Mr Andrew Bellamy (or his permitted nominees) every 6 months over the next 3 years as fixed equity-based remuneration for the 2015, 2016 and 2017 financial years, to the value of 30% of his salary and determined by reference to the volume-weighted average price of the Company's Shares for the 6 months up to 30 June and 31 December in each year in respect of which the Shares are issued,*

in accordance with the terms and conditions set out in the Explanatory Memorandum."

Voting Exclusion Statement

In accordance with section 250BD of the Corporations Act, a person appointed as proxy must not vote, on the basis of that appointment, on this Resolution if the person is either a member of the KMP or a closely related party of such a member and the appointment does not specify the way the proxy is to vote on this Resolution. However, the proxy may vote if the proxy is the chair of the meeting and the appointment expressly authorises the chair to exercise the proxy even if the resolution is connected directly or indirectly with the remuneration of a member of the KMP.

In accordance with Listing Rule 14.11, the Company will disregard any votes cast on this Resolution by Mr. Bellamy and by any associates of Mr. Bellamy.

However, the Company will not disregard a vote if:

- (a) it is cast by the person as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or*
- (b) it is cast by the chairman as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.*

6. **Resolution 3 – Approval of the issue of Performance Rights to Mr Andrew Bellamy**

To consider and, if thought fit, to pass the following as an **ordinary resolution**:

"That pursuant to and in accordance with Listing Rule 10.14 and for all other purposes, Shareholders approve the grant of 379,390 Performance Rights under the Austal Limited Long Term Incentive Plan to Mr Andrew Bellamy on the terms and conditions set out in the Explanatory Memorandum, and the issue of any Shares pursuant to the Performance Rights."

Voting Exclusion Statement

In accordance with section 250BD of the Corporations Act, a person appointed as proxy must not vote, on the basis of that appointment, on this Resolution if the person is either a member of the KMP or a closely related party of such a member and the appointment does not specify the way the proxy is to vote on this Resolution. However, the proxy may vote if the proxy is the chair of the meeting and the appointment expressly authorises the chair to exercise the proxy even if the resolution is connected directly or indirectly with the remuneration of a member of the KMP.

In accordance with Listing Rule 14.11, the Company will disregard any votes cast on this Resolution by a director of the Company (except one who is ineligible to participate in any employee incentive scheme in relation to the Company) and by any associates of those directors.

However, the Company will not disregard a vote if:

- (a) it is cast by the person as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or*
- (b) it is cast by the chairman as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.*

Proxy Instructions

A Shareholder who is entitled to attend and cast a vote at the meeting has a right to appoint a proxy. A proxy need not be a shareholder. Shareholders who are entitled to cast 2 or more votes are entitled to appoint up to two individuals to act as proxies to attend and vote on their behalf. Where more than one proxy is appointed each proxy may be appointed to represent a specific proportion or number of the Shareholder's voting rights and a separate proxy form should be used for each proxy. An additional proxy form will be supplied by Austal Limited on request. If the appointment does not specify the proportion or number of votes each proxy may exercise, each proxy may exercise half of the votes. For further information on proxy instructions, please refer to the proxy form.

The proxy form (and the Power of Attorney or other authority, if any, under which the proxy form is signed) or a copy or facsimile which appears on its face to be an authentic copy of the proxy form (and the Power of Attorney or other authority) must be deposited at, or sent by facsimile transmission to, the Company's share registry service provider: Advanced Share Registry Limited at 110 Stirling Highway, Nedlands WA 6009 or PO Box 1156, Nedlands WA 6909, facsimile number +61 8 9262 3723 not less than 48 hours before the time for holding the Annual General Meeting, or adjourned meeting as the case may be, at which the individual named in the proxy form proposes to vote.

Voting Entitlement

For the purposes of determining voting entitlements at the Annual General Meeting, Shares will be taken to be held by the persons who are registered as holding the Shares at 3.00 pm (WST) (being 6.00pm Sydney time) on Tuesday 28 October 2014. Accordingly, transactions registered after that time will be disregarded in determining entitlements to attend and vote at the Annual General Meeting.

**BY ORDER OF THE BOARD
AUSTAL LIMITED**

A handwritten signature in black ink, appearing to be 'John Rothwell', written over a horizontal line. The signature is stylized with a large loop at the end.

John Rothwell
Non-executive Chairman
22 September 2014

AUSTAL LIMITED
ACN 009 250 266

Explanatory Memorandum

This Explanatory Memorandum has been prepared for the information of Shareholders of Austal Limited ("Austal" or "Company") in connection with the business to be conducted at the **Annual General Meeting of Shareholders** to be held at the **Fremantle Sailing Club, Marine Terrace, Fremantle, Western Australia** on **Thursday 30 October 2014** at **3.00 pm (WST)**.

This Explanatory Memorandum should be read in conjunction with the accompanying Notice of Annual General Meeting.

1. Resolution 1 – Adoption of Remuneration Report

The Corporations Act requires listed companies to make expanded disclosure in respect of director and executive information. As a result, the Directors' Report must include a section called the "Remuneration Report". The Annual Report for the year ended 30 June 2014 contains a Remuneration Report which sets out the remuneration policy for the Company and reports the remuneration arrangements in place for the executive Directors, specified executives and non-executive Directors. The Company has revised the format of its Remuneration Report for 2014 in order to improve the clarity and precision of the report. A copy of the Remuneration Report is set out on pages 16-27 of the Annual Report and can also be found on the Company website at www.austal.com.

Additionally, the Corporations Act requires listed companies to put the Remuneration Report for each financial year to a vote of members at the Company's annual general meeting.

Under section 250R(3) of the Corporations Act, the shareholder vote on this Resolution is advisory only and will not bind the Directors or the Company. It will not require the Company to alter any arrangements detailed in the Remuneration Report, should the resolution not be passed. Notwithstanding the legislative effect of this requirement, the Board has determined that it will take the outcome of the vote into consideration when considering the Company's remuneration policy.

In addition, under the Corporations Act, if 25% or more of the votes cast on the resolution are voted against adoption of the Remuneration Report at the Annual General Meeting and then again at the 2015 Annual General Meeting, the Company will be required to put to Shareholders a resolution at the 2015 Annual General Meeting proposing the calling of a further general meeting to consider the election of directors of the Company (a "**Spill Resolution**").

If more than 50% of Shareholders vote in favour of a Spill Resolution, the Company would be required to convene a further general meeting (the "**Spill Meeting**") within 90 days of the 2015 Annual General Meeting. All of the directors who were in office when the 2015 directors' report was approved by the directors, other than the Managing Director, would cease to hold office immediately before the end of the Spill Meeting but may stand for re-election at the Spill Meeting. Following the Spill Meeting those persons whose election or re-election as directors is approved would be the directors of the Company.

In accordance with section 250R of the Corporations Act, a vote on Resolution 1 must not be cast (in any capacity) by or on behalf of a member of the key management personnel, details of whose remuneration are included in the Remuneration Report, or a closely related party of such a member. However, a person described above (the "**voter**") may cast a vote on Resolution 1 as a proxy if the vote is not cast on behalf of a person described above and the voter is either:

- (a) appointed as a proxy by writing that specifies the way the proxy is to vote on Resolution 1; or
- (b) the chair of the meeting and the appointment of the chair as proxy does not specify the way the proxy is to vote on Resolution 1 and expressly authorises the chair to exercise the proxy even though Resolution 1 is connected directly or indirectly with the remuneration of a member of the key management personnel.

During the course of the year, the Company continued to review its remuneration strategy and approach. Following this review, the charter of the Nomination and Remuneration Committee has been comprehensively updated to better reflect the clear objectives of the Company's remuneration framework. A copy of the Nomination and Remuneration Committee charter is available on the Company's website.

The Directors recommend that shareholders vote in favour of this resolution.

2. Resolution 2 – Approval of the issue of Shares to Mr. Andrew Bellamy

Background

Resolution 2 seeks Shareholder approval for the issue of Shares to Mr. Andrew Bellamy (or his permitted nominee) in satisfaction of the Company's contractual obligation to make a Share-based payment to Mr. Bellamy under his contract of employment.

Mr. Bellamy was appointed Chief Executive Officer on 24 February 2011. Mr. Bellamy's annual remuneration package as documented in his contract of employment included an equity-based component which was valued at between 30% and 50% of his salary, subject to Shareholder approval. The relevant percentage was fixed each year by the Company's Remuneration Committee in accordance with their assessment of Mr. Bellamy's performance during the preceding financial year. In 2013 the Remuneration Committee set the percentage at 40%.

Mr. Bellamy's remuneration is reviewed annually by the Company's Remuneration Committee which is comprised of Directors David Singleton, Giles Everist and John Rothwell.

Effective 1 July 2014, at the recommendation of the Remuneration Committee, the Company amended the terms of Mr. Bellamy's employment contract to adjust the balance between fixed and variable remuneration. This resulted in the amount of share-based remuneration being fixed at 30% of his salary rather than a discretionary figure of between 30-50%. Mr. Bellamy's variable remuneration entitlements are now determined through his participation in the Company's Long Term Incentive Plan.

Subject to shareholder approval, the Shares would be issued to Mr. Bellamy in separate tranches as described below.

1. Tranche 1: Shares issued under terms of employment for the financial year ended 30 June 2014

As outlined above, Mr. Bellamy's annual remuneration package as documented in his contract of employment for the financial year ended 30 June 2014 (**FY 2014**) was comprised in part of an issue of Shares to the value of 30% of his salary. This percentage was fixed by the Company's Remuneration Committee in accordance with their reassessment of the Company's remuneration strategy in 2013.

The number of Shares to be issued to Mr. Bellamy as fixed equity-based remuneration for FY 2014 is calculated by dividing the value of the Share-based payment (that is, 30% of Mr. Bellamy's salary) by the volume-weighted average price ("**VWAP**") of the Company's Shares

traded on ASX calculated over the 6 months immediately prior to the date the Board resolves to issue the Shares. The VWAP for this period was \$1.04, resulting in the proposal to issue 227,634 Shares to Mr. Bellamy in respect of FY 2014.

2. Tranche 2: Shares to be issued in future years under terms of employment pursuant to an approved formula

The number of Shares to be issued to Mr. Bellamy over the next 3 years is not currently known as it will depend on the Company's Share price at the time of the issue.

Effective 1 July 2014, the amount of Mr. Bellamy's equity-based remuneration is fixed at 30% of his salary. The Share value for the purposes of calculating this entitlement will be the VWAP of the Company's Shares for the 6 months up to 30 June and 31 December each year, to ensure the calculation of share value allows for the impact of the announcement of half- and full year results on the Company's share price.

The number of Shares to be issued to Mr. Bellamy will be calculated as 30% of his salary (for the financial year in respect of which Shares are issued) divided by the VWAP for the Company's Shares for the 6 months up to 30 June and 31 December in each year in which Shares are issued.

If Shareholders approve the proposed Resolution 2, the Company intends to issue the Shares to Mr. Bellamy in accordance with the method outlined above in two equal instalments in July and January each year.

Details of any Shares issued to Mr. Bellamy will be included in each annual report of the Company relating to a period in which the Shares have been issued, and that approval for the issue of the Shares was obtained under ASX Listing Rule 10.14.

The issue of Shares to Mr. Bellamy is treated by ASX as being issued pursuant to an employee incentive scheme, notwithstanding that the arrangement only applies to Mr. Bellamy. Accordingly, Shareholders approval for the issue of the Shares to Mr. Bellamy is required pursuant to ASX Listing Rule 10.14.

ASX Listing Rule Requirements

ASX Listing Rule 10.14 requires the Company to obtain Shareholder approval by ordinary resolution prior to the issue of incentive shares to a related party of the Company (which includes a director).

ASX Listing Rule 10.11 requires the Company to obtain Shareholder approval prior to the issue of Shares to a related party of the Company (which includes a director), unless a specified exception applies. One of the exceptions to ASX Listing Rule 10.11 is if the issue of Shares is approved under ASX Listing Rule 10.14.

ASX Listing Rule Disclosure Requirements

In order to comply with ASX Listing Rule 10.14, this Notice must comply with either ASX Listing Rule 10.15 or 10.15A. As the Shares may be issued to Mr. Bellamy later than 12 months following the Annual General Meeting, the Notice must comply with the requirements of ASX Listing Rule 10.15A

The following information is provided in relation to Resolution 2 for the purposes of ASX Listing Rule 10.15A:

ASX Listing Rule 10.15A.1: The approval sought under Resolution 2 is in relation to the issue of Shares to Mr. Bellamy who is a director of the Company;

ASX Listing Rule 10.15A.2: The Company has obtained a waiver from ASX in respect of compliance with the requirements of ASX Listing Rule 10.15A.2. The waiver allows the Company not to include the

maximum number of Shares that may be issued to Mr. Bellamy as this number is presently unascertainable due to it being based on a formula which includes a future share price. The waiver was granted on the basis that the Company sets out the method by which the number of Shares to be issued will be calculated. The number of Shares to be issued to Mr. Bellamy will be calculated as 30% of his salary (for the financial year in respect of which Shares are issued) divided by the VWAP for the Company's Shares for the 6 months up to 30 June and 31 December of the relevant year.

ASX Listing Rule 10.15A.3: No cash amount will be payable to the Company in respect of the issue of these Shares (rather, they are being issued by the Company in satisfaction of the provisions of Mr. Bellamy's contract of employment and in return for the provision of services by Mr. Bellamy pursuant to that contract). The value of the Shares for the purposes of calculating the Mr. Bellamy's entitlement is the volume weighted average market price for the 6 months up to 30 June and 31 December of the relevant year in respect of which the Shares are issued.

ASX Listing Rule 10.15A.4: No other persons have received Shares under this scheme since the last approval.

ASX Listing Rule 10.15A.5: Mr. Bellamy is the only person entitled to participate in the scheme.

ASX Listing Rule 10.15A.6: A voting exclusion statement is included in the Agenda accompanying this Notice.

ASX Listing Rule 10.15A.7: There are no loans in relation to the proposed issue of Shares to Mr. Bellamy.

ASX Listing Rule 10.15A.8: The following statements are provided as required by ASX Listing Rule 10.15A.8:

- (a) Details of any Shares issued under the scheme will be published in each annual report of the Company relating to a period in which Shares have been issued, together with a statement that approval for the issue of the Shares was obtained under ASX Listing Rule 10.14.
- (b) Any additional persons who become entitled to participate in the scheme after this Resolution 2 is approved and who are not named in this Notice will not participate in the scheme until approval is obtained under ASX Listing Rule 10.14.

ASX Listing Rule 10.15A.9: If approved by Shareholders, the Company intends to issue the Shares in equal instalments in July and January each year. The ASX Listing Rules provide that the Shares may be issued at any time up to 3 years after the Annual General Meeting.

The Directors recommend that shareholders vote in favour of this resolution.

Resolution 3 – Approval of the issue of Performance Rights to Mr. Andrew Bellamy

Resolution 3 seeks Shareholder approval for the grant of 379,390 Performance Rights to Mr. Andrew Bellamy (and any subsequent issue of Shares pursuant to those Performance Rights). The Performance Rights will be granted under the Austal Limited Long Term Incentive Plan which was approved by shareholders at the Company's 2012 AGM (**LTI Plan**).

Following engagement with shareholders and a review of the Company's remuneration strategy, the Board has determined that absolute Total Shareholder Return (**TSR**) and Return on Invested Capital (**ROIC**) as the most appropriate performance measures to assess executive performance because the Board believes that these performance measures perfectly align the incentives with the objectives of shareholders.

Performance Rights issued would vest subject to the terms of the plan. An example of performance targets is set out below.

<u>Performance Measure</u>	<u>Percentage of award</u>	<u>Thresholds</u>	<u>Percentage vesting</u>
Total Shareholder Return	30%	<= 15% 15% - 25% >=25%	Zero Pro-rated on linear basis 30%
Return on Invested Capital	70%	<= 6% 6% - 10% >=10%	Zero Pro-rated on linear basis 70%

If approved by Shareholders and subject to meeting performance criteria, the Performance Rights issued in accordance with this Resolution would vest in separate instalments in 2016 (25%) and 2017 (75%) as part of the transitional vesting arrangements from the Company's previous incentive plan to the current plan. The transitional vesting arrangements are described in more detail in the Company's Annual Report.

The grant of Performance Rights to Mr. Bellamy is intended to act as a strong incentive for Mr. Bellamy to align with the Company's strategic plan focussing on seeking improved performance, the growth of the Company and better returns for Shareholders.

The Directors recommend that Shareholders vote in favour of this Resolution.

ASX Listing Rule Requirements

ASX Listing Rule 10.14 provides, in essence, that the approval of shareholders by ordinary resolution is required before a Director can acquire securities (including performance rights) under an employee incentive scheme.

Accordingly, in order for Mr. Bellamy to participate in the LTI Plan and receive Performance Rights under the LTI Plan over the next three years, the Company must obtain Shareholder approval pursuant to ASX Listing Rule 10.14.

ASX Listing Rule Disclosure Requirements

ASX Listing Rule 10.15A sets out a number of matters which must be included in a notice of meeting requesting shareholder approval under ASX Listing Rule 10.14.

The following information is provided in relation to Resolution 3 for the purposes of ASX Listing Rule 10.15A:

- (a) The name of the person referred to in ASX Listing Rule 10.14 who is entitled (pursuant to Resolution 3) to participate in the LTI Plan and receive Performance Rights is Mr Andrew Bellamy. Mr. Bellamy is an Executive Director of the Company.
- (b) No other persons referred to in ASX Listing Rule 10.14 are presently entitled to participate in the LTI Plan (and any who become entitled to participate will not do so until after any Shareholder approval required under ASX Listing Rule 10.14 (or otherwise under chapter 10 of the ASX Listing Rules) is obtained).
- (c) The maximum number of Performance Rights that may (in aggregate) be granted to Mr. Bellamy is (assuming his salary remains unchanged and the Board does not exercise its discretion to award additional Performance Rights):

- (i) during the next 3 years without further Shareholder approval: 503,420 Performance Rights; and
 - (ii) during the financial year to ending 30 June 2015, 379,390 Performance Rights.
- (d) No consideration is payable for the grant of Performance Rights under the LTI Plan, or (unless the Board otherwise determines at the time it makes an offer of Performance Rights) for the issue or transfer of Shares upon vesting of Performance Rights granted under the LTI Plan. The LTI Plan (and Performance Rights issued under it) form part of the Company's remuneration and incentive package for executives.
- (e) No loans have or will be made by the Company in connection with the acquisition of Performance Rights.
- (f) Performance Rights will not be granted under the LTI Plan to Mr. Bellamy at any stage after 3 years from the date of the 2014 Annual General Meeting without obtaining any Shareholders approval required under the ASX Listing Rules.
- (g) Details of Mr. Bellamy's holdings of interests in the Company are set out the Company's annual report. Details of the Performance Rights granted under the LTI Plan will be published in each annual report of the Company relating to the period in which the Performance Rights have been granted (with a statement that approval for the grant of Performance Rights to Mr. Bellamy was obtained under ASX Listing Rule 10.14).

Subject to the passage of Resolution 3, any Performance Rights issued under the LTI Plan (or Shares issued on the vesting of such Performance Rights) will not count towards calculating the Company's 15% capacity to issue shares under ASX Listing Rule 7.1.

The Directors recommend that shareholders vote in favour of this resolution.