

AUSTAL LIMITED

ACN 009 250 266

Notice of Annual General Meeting

and

Agenda

and

Explanatory Memorandum

A PROXY FORM IS ENCLOSED

Date of Meeting:	Friday 1 November 2019
Time of Meeting:	3.00pm (WST)
Place of Meeting:	Fremantle Sailing Club 151 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.

If you are unable to attend the Annual General Meeting, please complete and return the enclosed Proxy Form in accordance with the specified instructions.

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, 151 Marine Terrace, Fremantle, Western Australia** on **Friday, 1 November 2019 at 3.00pm (WST)** for the purpose of transacting the business referred to on the pages following this Notice of Annual General Meeting.

The Explanatory Memorandum to this Notice provides additional information on matters to be considered at the Meeting. The Explanatory Memorandum and the Proxy Form form part of this Notice.

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 David Singleton**
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 2019 together with the Directors' declaration and Report in relation to that financial year and the Auditors' report on those financial statements.

4. **Resolution 1 – Non-binding resolution to adopt Remuneration Report**

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

“That the Remuneration Report as set out in the Annual Report for the year ended 30 June 2019 be adopted.”

Note: 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. However, if the "No" vote is greater than 25%, the Board Spill Meeting resolution in Resolution 2 will be put to the AGM.

Please see section 2 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 favour of this Resolution by or on behalf of a member of the Key Management Personnel (KMP) (which includes each of the Directors), named in the Company's Remuneration Report, or that KMP's Closely Related Party (in any capacity), 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 – Board Spill Meeting**

Note: This resolution will only be put to the meeting if at least 25% of the votes on Resolution 1 above are cast against that resolution for the adoption of the Remuneration Report.

If you do not want the Spill Meeting to be held, you should vote against Resolution 2. If you do want the Spill Meeting to be held, you should vote for Resolution 2.

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

“That subject to and conditional on at least 25% of the votes cast on Resolution 1 being cast against the adoption of the Remuneration Report:

- (a) another General Meeting of the Company (**Spill Meeting**) be held within 90 days of the passing of this resolution;*
- (b) all of the Directors in office when the board resolution to make the Directors Report for the financial year ended 30 June 2019 was passed excluding the Company’s Managing Director (those Directors being John Rothwell AO, Giles Everist, Sarah Adam-Gedge and Chris Indermaur) cease to hold office immediately before the end of the Spill Meeting; and*
- (c) resolutions to appoint persons to those offices of Director that will be so vacated immediately before the end of the Spill Meeting be put to the vote of shareholders at the Spill Meeting.”*

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 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.*

6. Resolution 3 – Re-election of Ms Sarah Adam-Gedge

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

“That Ms Sarah Adam-Gedge, being a Director of the Company who retires in accordance with Article 8.1(f) of the Company’s Constitution and, being eligible, is re-elected as a Director of the Company.”

7. Resolution 4 – Rights Plan for Long and Short Term Incentives

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

“That approval is given for all purposes (including Listing Rule 7.2 (exception 9)) for:

- (a) the establishment of a plan, to be called Austal Limited Rights Plan (**Plan**) to issue indeterminate rights (**Rights**) to full time or part-time employees (including executive Directors but excluding non-executive Directors) of the Company or its wholly owned subsidiaries (each a **Group Company**) or a person who will prospectively fill one of the foregoing roles;*
- (b) The Plan can be used for a range of purposes, including but not limited to:*
 - i. the issue of Long Term Incentive Rights;*
 - ii. the issue of deferred Short Term Incentive Rights; or*
 - iii. the issue of Service Rights to certain non-executive employees,*

in accordance with the Austal Limited Rights Plan Rules, providing for rules in respect of Australian employees and United States employees, initialled by the Chairman for the purposes of identification and described in the attached 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 in favour of this Resolution by or on behalf of 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 need 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.*

8. Resolution 5 – Approval of the issue of Share Rights to Ms Sarah Adam-Gedge

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

“That, subject to the passing of Resolution 3, pursuant to and in accordance with Listing Rule 10.14 and for all other purposes, Shareholders approve the grant of up to \$25,000 worth of Share Rights to Ms Sarah Adam-Gedge on the terms and conditions set out in the Explanatory Memorandum, and any issue of Shares pursuant to those Share 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 in favour of this Resolution by or on behalf of (i) Ms Adam-Gedge and by any associates of Ms Adam-Gedge; and/or (ii) a Director of the Company (except one who is ineligible to participate in the employee incentive scheme in relation to the Company in respect of which approval is sought under this Resolution 5) and by any associates of those Directors.

However, the Company need 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.*

9. **Resolution 6 – Approval of the issue of Share Rights to Mr Chris Indermaur**

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

“That pursuant to and in accordance with ASX Listing Rule 10.14 and for all other purposes, Shareholders approve the grant of up to \$25,000 worth of Share Rights to Mr Chris Indermaur on the terms and conditions set out in the Explanatory Memorandum, and any issue of Shares pursuant to those Share 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 in favour of this Resolution by or on behalf of (i) Mr Indermaur and by any associates of Mr Indermaur; and/or (ii) a Director of the Company (except one who is ineligible to participate in the employee incentive scheme in relation to the Company in respect of which approval is sought under this Resolution 6) and by any associates of those Directors.

However, the Company need 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.*

10. **Resolution 7 – Approval of the issue of LTI Rights to Mr David Singleton**

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 up to **721,633** Long Term Incentive Rights (**LTI Rights**) under the Austal Limited Rights Plan (comprising 492,402 LTI Rights for FY19 and 229,231 LTI Rights for FY20) to Mr David Singleton on the terms and conditions set out in the Explanatory Memorandum, and any issue of Shares pursuant to those 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 or on behalf of (i) Mr. Singleton and by any associates of Mr. Singleton; and/or (ii) a Director of the Company (except one who is ineligible to participate in the employee incentive scheme in relation to the Company in respect of which approval is sought under this Resolution 7) and by any associates of those Directors.

However, the Company need 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*

Australia
If by Facsimile: +61 2 9287 0309
If by Hand: Link Market Services Limited
1A Homebush Bay Drive
Rhodes NSW 2138

Online (recommended): www.linkmarketservices.com.au

Select 'Shareholders Login' and in the 'Single Holding' section enter Austal Limited or the ASX code (ASB) in the Issuer name field, your Holder Identification Number (HIN) or Security Reference Number (SRN) (which is shown on the front of your proxy form or on your holding statement), postcode, security code which is shown on the screen, tick the terms and conditions agreement and click 'Login'.

Select the 'Voting' tab and then follow the prompts.

You will be taken to have signed your Proxy Form if you lodge it in accordance with the instructions given on the website.

Completed proxy forms must be returned to one of the above addresses (or online proxy lodgement) not less than 48 hours before the time for holding the Annual General Meeting.

Corporate Representatives

A Shareholder that is a corporation may appoint an individual to act as its representative and vote in person at the Meeting. The appointment must comply with the requirements of section 250D of the Corporations Act. Written proof of the representative's appointment (including any authority under which it is signed) must be lodged with, or presented to the Company's share registry before the Meeting. Shareholders can download and fill out the 'Appointment of Corporate Representation' form from Link Market Services Limited's website – www.linkmarketservices.com.au. Hover over 'Resources' Select the Investor Services tab and click on 'Forms' and then select 'Holding Management'.

Voting Entitlement

It has been determined that under regulation 7.11.37 of the *Corporations Regulations 2001* (Cth), 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 4.00pm (WST) (being 7.00pm Sydney time) on Wednesday, 30 October 2019.

**BY ORDER OF THE BOARD
AUSTAL LIMITED**

A handwritten signature in black ink, appearing to be 'John Rothwell', written over a horizontal line.

John Rothwell
Non-executive Chairman
2 October 2019

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, 151 Marine Terrace, Fremantle, Western Australia** on **Friday, 1 November 2019** at **3.00pm (WST)**.

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

Certain terms and abbreviations used in this Explanatory Memorandum have defined meanings which are explained in Attachments 1 and 2 at the end of this Explanatory Memorandum.

Ordinary Business

1. Annual financial report

The Corporations Act requires:

- the reports of the Directors and Auditors; and
- the annual financial report, including the financial statements of the Company for the year ended 30 June 2019,

to be laid before the Meeting. The Corporations Act does not require a vote of Shareholders on the reports or statements. However, Shareholders will be given ample opportunity to raise questions or comments on the management of the Company.

Also, a reasonable opportunity will be given to Shareholders as a whole at the Meeting to ask the auditor of the Company's 2019 financial statements questions relevant to the conduct of the audit, the preparation and content of the auditor's report, the accounting policies adopted by the Company in relation to the preparation of the financial statements and the independence of the auditor in relation to the conduct of the audit.

2. Resolution 1 – Non-binding resolution to adopt 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 2019 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. A copy of the Remuneration Report is set out on pages 31 - 58 of the Annual Report and can also be found on the Company website at www.austal.com.

Section 250R(2) of 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. 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.

If the resolution is not passed, the Company will not be required to alter any arrangements detailed in the Remuneration Report. However, if at least 25% votes cast are against Resolution 1, due to the '2 strikes' rule discussed below, the Company will be required to put Resolution 2 to the 2019 Annual General Meeting. If Resolution 2 is passed as an ordinary resolution, then the Company will be required to convene the Spill Meeting. Please see *Section 3, Resolution 2 – Spill Meeting* below for further details.

Significant Changes to Remuneration arrangements

At the 2018 Annual General Meeting, approximately 63% of eligible votes were cast in favour of the resolution to approve the Company's remuneration report for the period ending 30 June 2018 (with approximately 37% votes cast against that resolution). The Company therefore has a 'first strike' on the adoption of its Remuneration Report, given the number of votes against the resolution to approve the Company's FY2019 Remuneration Report was over 25%.

As a result of this event, the Board decided to take the opportunity to undertake a comprehensive review of remuneration policies, practices and disclosures in the interests of all stakeholders. This review commenced in October 2018 and included advice from Austal's independent remuneration consultants, consultation with shareholders, management and other stakeholders. This process took over 6 months to complete, and has resulted in significant changes to all aspects of executive KMP remuneration. The Board decided to implement these changes immediately where possible and as a result, many of these changes have been implemented during FY2019, with the balance of changes being implemented in FY2020 where immediate change was not possible or practical. The changes are explained in detail in the Company's 2019 Annual Report and summarised in this explanatory memorandum.

The scope of the review included executive and NED remuneration benchmarking, review of Short Term Incentive (**STI**) and Long Term Incentive (**LTI**) arrangements, metrics and vesting scales and associated policies, the alignment of Company's remuneration practices to shareholders' interests, as well as taking account of best-practices evident in the market.

In summary, the major changes are:

- Reduction in Total Remuneration (**TR**) for executive KMP. For the CEO this resulted in a reduction of the TR opportunity from 300% of Total Fixed Remuneration (**TFR**) to 270% of TFR.
- 50% of STI awards are now settled with equity, access to which is deferred over 3 years. STI awards were previously 100% cash. The value of STI Stretch awards has been reduced from 100% to 50% over Target. In addition, a minimum of 50% of STI metrics will be financial, and the Company has improved the transparency of the metrics and their measurement as set out in the Remuneration Report. Certain elements of the STI changes (including, for example, deferral of part of any STI award into equity) have not been implemented for US KMP because remuneration practices and regulations are different in the USA.
- LTI metrics have been changed from Relative Total Shareholder Return (**rTSR**) and Return on Invested Capital (**ROIC**), to three new metrics being Indexed TSR (**iTSR**), Earnings per Share Growth (**EPSG**), and Return on Equity (**ROE**), with each metric constituting 1/3 weighting. These metrics ensure alignment with shareholders' interest, are more specific to Austal's industry (in relation to iTSR), and their measurement is more transparent. The Board discretion for retesting has also been removed.

A list of the material concerns expressed by shareholders following the 2018 AGM and actions by the Company's Nomination & Remuneration Subcommittee (**NRC**) is summarised in the following table:

Overall Remuneration	
Concern	Action in FY2019
<ul style="list-style-type: none"> • CEO award opportunities are too high. 	<ul style="list-style-type: none"> • Total CEO remuneration opportunity at the stretch level has been reduced from 300% of Total Fixed Remuneration (TFR) to 270% of TFR.
<ul style="list-style-type: none"> • Proportion of cash to CEO. 	<ul style="list-style-type: none"> • Cash: equity ratio at target has been changed from 75% / 25% to 50% / 50%.
<ul style="list-style-type: none"> • No minimum equity holding required. 	<ul style="list-style-type: none"> • The CEO has been required to accumulate and then maintain equity holdings with value equivalent to 1 year of TFR since his appointment in FY2016. The CEO's equity holding was equivalent to 571% of TFR at 30 June 2019. • The CFO has been required to accumulate and then maintain equity holdings with value equivalent to ½ a year of TFR since FY2018. The CFO's equity holding was equivalent to 222% of TFR at 30 June 2019. • All Non-Executive Directors (NED) have been required to accumulate and then maintain equity holdings with value equivalent to 1 year of Board fees since FY2018.
<ul style="list-style-type: none"> • CEO's FY2018 TFR increase was excessive. 	<ul style="list-style-type: none"> • Statutory remuneration tables in the FY2018 disclosed an apparent increase in TFR that was higher than the actual increase due to movements in the leave accrual. The CEO's TFR was actually only increased by the CPI index of 2.1%. • A realised remuneration table has been added to the FY2019 Remuneration Report to improve disclosure of concepts that may be opaque in the accounting disclosures. • FY2019 TFR increase was 1.9% and TFR has been frozen for FY2020.
Short Term incentives (STI)	
Concern	Action in FY2019
<ul style="list-style-type: none"> • 100% of STI was paid in cash, some STI should be equity. 	<ul style="list-style-type: none"> • STI award for Australian based KMP changed to 50% cash and 50% equity and the equity component is subject to a 3 year holding lock.
<ul style="list-style-type: none"> • No profit gate for STI payout. 	<ul style="list-style-type: none"> • An EBIT gate has been established at 85% of Budget.
<ul style="list-style-type: none"> • Exposure to financial KPI should be at least 50% to increase alignment with shareholders. 	<ul style="list-style-type: none"> • Financial KPI weight increased to 60% for FY2019 with a policy that the minimum weight will be 50%.

<ul style="list-style-type: none"> No visibility of KPI targets and actuals. 	<ul style="list-style-type: none"> KPI targets and results are now disclosed.
<ul style="list-style-type: none"> Non-financial growth and efficiency KPI should be simple. 	<ul style="list-style-type: none"> Non-financial measures are more specific.
Long Term Incentives (LTI)	
Concern	Action in FY2019
<ul style="list-style-type: none"> Austal Total Shareholder Return (TSR) is susceptible to a free carry on market movements. 	<ul style="list-style-type: none"> Modified TSR metric for the FY2019 LTI plan to be Austal's premium above the market index (i.e. indexed TSR).
<ul style="list-style-type: none"> All Ordinaries TSR is too broad. 	<ul style="list-style-type: none"> Adopted the ASX 300 Industrials index for the TSR calculation.
<ul style="list-style-type: none"> No positive TSR gate for award. 	<ul style="list-style-type: none"> Added a positive TSR gate for TSR component.
<ul style="list-style-type: none"> Board has discretion to re-test. 	<ul style="list-style-type: none"> Re-testing and extension of measurement period has been removed.

The Company's 2019 Remuneration Report elaborates on the above with significant further detail on the changes made and disclosure of target and actual performance.

Explanation regarding mandatory requirements for spill resolution

Under section 250W of the Corporations Act, if 25% or more of the votes cast on the resolution are voted against adoption of the Remuneration Report at the 2018 Annual General Meeting and then again at the 2019 Annual General Meeting, the Company is thereby issued a 'second strike'. In the event of a second strike, the Company will be required to put to Shareholders a resolution at the 2019 Annual General Meeting proposing the calling of a further general meeting to consider the election of Directors of the Company (a **Spill Resolution**).

The voting exclusion statement in relation to Resolution 1 accompanies Resolution 1 in the Notice of Meeting.

Recommendation

The Directors unanimously recommend that Shareholders vote in favour of Resolution 1.

The Chairman of the Meeting intends to vote undirected proxies in favour of Resolution 1.

3. Resolution 2 – Spill Meeting

This resolution will only be put to a vote if at least 25% of the votes cast on Resolution 1 (Adoption of the Remuneration Report) are cast against that resolution and the Company is thereby issued a 'second strike'.

In the event of a second strike, the Company would be required to put to shareholders a resolution (**Spill Resolution**) proposing the calling of a further general meeting to consider the election of Directors of the Company (**Spill Meeting**).

If more than 50% of Shareholders vote in favour of a Spill Resolution, the Company would be required to convene a further general meeting (being the Spill Meeting) within 90 days of the 2019 Annual General Meeting. All of the Directors who were in office when the 2019 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. Those Directors are:

- John Rothwell AO;
- Giles Everest;
- Sarah Adam-Gedge; and
- Chris Indermaur.

Following the Spill Meeting those persons whose re-election as Directors is approved would be the Directors of the Company.

The voting exclusion statement in relation to Resolution 2 accompanies Resolution 2 in the Notice of Meeting.

If it is required, the directors recommend that you vote **against** Resolution 2. As set out in Section 1 above, the Board used the period following the vote on the 2018 Remuneration Report as an opportunity to review the Company's remuneration practices and to seek advice from independent consultants, shareholders, management and other stakeholders. This review resulted in comprehensive changes to the Company's remuneration practices – these changes are summarised in the table above and were made in direct response to feedback received from investors, proxy advisers and other stakeholders.

The Spill Meeting will result in all directors (other than the Managing Director) being required to stand for re-election. If those directors choose not to stand for re-election or are not subsequently re-elected at the Spill Meeting, the Company will lose the benefit of the extensive skills and experiences of the current Board. The Company would also incur additional costs preparing for and convening the Spill Meeting and the Spill Meeting is likely to disrupt the Company's business activities.

If you **do not** want the Spill Meeting to take place, you should vote **against** Resolution 2.

If you do want the Spill Meeting to take place, you should vote in favour of Resolution 2.

Recommendation

*The Directors unanimously recommend that Shareholders vote **against** Resolution 2.*

*The Chairman of the Meeting intends to vote undirected proxies **against** Resolution 2.*

3. Resolution 3 – Re-election of Ms Sarah Adam-Gedge

Ms Sarah Adam-Gedge is required to retire under the Director rotation provisions of Article 8.1(f) of the Company's constitution. Ms Gedge, is an independent Director (as that term is defined in the ASX Corporate Governance Council guidelines) being eligible, has offered herself for re-election as a Director.

The relevant experience, qualifications and other information about Sarah Adam-Gedge is as follows:

Ms Adam-Gedge was appointed as a Non-Executive Director of the Company on 28 August 2017. She brings strong consulting, enterprise technology and digital background to Austal through her experience in executive roles in the information technology and consulting sectors. She is currently the Managing Director of Publicis Sapient Australia, which is the digital business transformation hub of the Publicis Group. Previously she has been Managing Director of Avanade Australia, Managing Partner and Vice

President, Global Business Services at IBM and has also previously held senior executive roles at PwC and Arthur Andersen, leading the development and implementation of numerous digital enterprise transformation engagements for customers including NBN, Qantas, Chevron and Rio Tinto.

Ms Adam-Gedge is a Chartered Accountant and member of the Institute of Chartered Accountants Australia/New Zealand. She holds a Bachelor of Business (Accounting) from the Queensland University of Technology, is a Graduate of the Australian Institute of Company Directors, a member of the Diversity Council for the Australian Computer Society and sits on the Finance, Audit and Risk Committee of Ovarian Cancer Australia.

She is also Chair of the Company's Remuneration committee and led the comprehensive changes to the Company's remuneration arrangements explained above. She is also a member of the Audit & Risk Committee.

Recommendation

The Directors (with Ms Adam-Gedge abstaining) unanimously recommend that Shareholders vote in favour of Resolution 3.

The Chairman of the Meeting intends to vote undirected proxies in favour of Resolution 3.

4. Resolution 4 - Rights Plan for Long and Short Term Incentives

The Board has determined to implement a new employee equity plan called the Austal Limited Rights Plan (the **Plan**). The Plan is used to grant equity to eligible employees under Long Term Incentive (**LTI**) and Short Term Incentive (**STI**) arrangements noting that as set out in the explanation of Resolution 1 above, 50% of any STI entitlement will be deferred to equity from 2019 onwards.

The Plan involves the issue of a financial instrument called an indeterminate right (referred to hereafter as a **Right**), which is a form of derivative, and entitles the bearer, when validly exercised, to the value of an ordinary Company Share (or in the case of USA Participants, an American Depository Receipt over a Company Share), which may be settled in the form of cash or a Restricted Share (an ordinary Share which is subject to disposal restrictions), at the sole discretion of the Board.

Under the Plan, the Board may invite eligible persons (determined in accordance with the rules of the Plan (**Rules**)) to apply for Rights to be issued in accordance with, and subject to the terms of, the Rules. An invitee who elects to participate in the plan shall be a **Participant**. Attachments 1 and 2 of this Notice set out the relevant Rules for both STI and LTI respectively.

Short Term Incentive Rights – the component of STI that is deferred into equity

As set out above, in response to shareholder feedback in 2018 the Board has determined that 50% of any STI award issued to KMP and other executives will be deferred into equity via STI Rights. Equity-based remuneration such as STI Rights aims to align the interests of Participants with shareholder interests and to provide Participants with the opportunity to acquire Austal Ltd shares (**Shares**) through remuneration.

The purpose of STI deferral aims to subject the rewards arising from short term decision making to long term outcomes in the market for Shares as an incentive and risk management tool. That is, short term decisions are expected to produce sustainable value, and if shareholder value is not sustained then the value of the deferred component of the STI will fall, in line with the share price. Equally, if short term decision making causes the share price to rise, that will flow as a benefit to Participants in the same way as it flows to shareholders.

Each year the Board will decide which employees to invite and the number of Rights that each Participant will be invited to apply for and the terms and conditions of the invitations including Rights vesting conditions in accordance with the Rules.

While the Company intends to consider making invitations annually, the receipt of an invitation or invitations by an employee does not confer on that employee any entitlement to ongoing employment or to receive any further Invitations.

STI Rights are not transferable or tradeable and may not be dealt with, sold, transferred or otherwise encumbered prior to vesting into Shares.

Vesting of STI Rights will be determined by reference to pre-agreed performance criteria applied over 12 months (ie. over the financial year of issue), and Participants may elect to exercise Rights into Shares after vesting. However these Shares are subject to restrictions on dealing/disposal under the terms specified in the relevant invitation (**Specified Disposal Restrictions**), meaning that they cannot be traded or transferred until those restrictions cease to apply. The Specified Disposal Restriction applying to the FY2020 Rights issue will be a 3 year holding lock, meaning any Shares issued to Participants under the FY2020 Rights issue could not be traded until July 2023.

The Company will impose the restriction through its share registry to ensure that Participants do not transfer Shares except as allowed by the Plan, unless otherwise determined by the Board.

Once Restricted Shares cease to be subject to disposal restrictions, the Participant will likely be taxable on the then market value of the Shares. The intention of this approach is to align the taxing point, and taxable value of the benefit, with the point at which the Participant may sell Shares to cover their tax liability.

In the case of a termination of employment during the period of any Specified Disposal Restrictions, the Board has determined that up to 50% of STI Rights held at the date of termination with the Group will cease to be subject to Specified Disposal Restrictions, in order to fund any tax obligations at that point. The Participant will be required to continue to hold the remaining 50% until the elapsing of the Specified Disposal Restrictions (to align with the entitlements of other Participants who continue to be employed with the Group).

Long Term Incentive Rights

Up to and including FY2018, the issue of equity under the Company's LTI arrangements was done through the issue of performance rights. These are a right to a share in Austal Limited pending achievement of certain performance criteria over the measurement period of 3 years from issue of the performance rights. The performance criteria were based on 2 measures, applied over the 3 year performance period:

1. Total Shareholder Return (**TSR**) as an external measure of performance; and
2. Return on Invested Capital (**ROIC**) as an internal measure of performance.

In response to shareholder feedback after the 2018 AGM, the NRC and Board undertook a comprehensive review of LTI metrics with the assistance of an external remuneration consultant and selected 3 equally weighted (ie. one third each) measures of long term performance for the FY2019 LTI plan:

1. Indexed TSR (**iTSR**);
2. Return on Equity (**ROE**); and
3. Earnings per Share Growth (**EPSG**).

Metrics are intended to be difficult, but achievable; it is expected that 'Target' performance is achieved approximately 50-60% of the time and 'Stretch' (or maximum) performance is expected to be achieved 10-20% of the time.

The measurement period for the FY19 LTI Rights Grant is 3 years from the beginning of the financial year in which the Rights are issued (**Measurement Period**). Rights will typically vest following the completion

of the Measurement Period based on an assessment of the vesting conditions, however Rights may vest before the end of the Measurement Period in some circumstances such as a change of control.

Continued service with a Group Company during the entire Measurement Period is a requirement for Rights to become eligible to vest (subject to exceptions contained in the Plan Rules, such as a change of control).

Performance measure 1 – iTSR (33% of total)

The vesting of Rights based on iTSR performance will be determined by reference to the following scale over the Measurement Period:

Performance level	Company’s Annualised TSR compared to annualised movement in ASX300 Industrials Index	% of Stretch/Grant/maximum vesting
Stretch and above	≥Index movement +6% TSR CAGR	100%
Between Threshold and Stretch	>Index movement and <Index movement +6% TSR CAGR	Pro-rata
Threshold	Index movement	50%
<Threshold	<Index movement	0%

For the purposes of this calculation, TSR is the sum of Share price appreciation and dividends (assumed to be reinvested in Shares) during the Measurement Period. It is annualised for the purposes of the above vesting scale. CAGR is Compound Annual Growth Rate.

iTSR Rights are subject to a gate of the Company’s TSR being positive over the Measurement Period.

Performance measure 2 – ROE (33% of total)

The vesting of Rights based on ROE performance will be determined by reference to the following scale over the Measurement Period:

Performance level	Return on Equity (Average NPAT ÷ Time Weighted Average Shareholders’ Equity less Reserves)	% of Stretch/grant/maximum vesting
Stretch and above	15%	100%
Between Target and Stretch	>12.5% and <15%	Pro rata
Target	12.5%	50%
Between Threshold and Target	>10% and <12.5%	Pro rata
Threshold	10%	25%
Below Threshold	<10%	0%

For the purposes of this calculation, NPAT is Net Profit After Tax.

Performance measure 3 – EPS Growth (33% of total)

The vesting of Rights based on EPS Growth will be determined by reference to the following scale over the Measurement Period:

Performance level	Earnings per Share CAGR over Measurement Period	% of Stretch/grant/maximum vesting
Stretch and above	19%	100%
Between Target and Stretch	>11% and <19%	Pro rata
Target	11%	50%
Between Threshold and Target	>6% and <11%	Pro rata
Threshold	6%	25%
Below Threshold	<6%	0%

Compound Annual Growth Rate (CAGR) will be calculated based on the EPS for the last year of the Measurement Period compared with the EPS for the financial year immediately prior to the commencement of the Measurement Period.

Each year the Company intends to invite selected employees to apply for Rights under the Plan. The Board will decide which employees to invite, the numbers of Rights that each Participant will be invited to apply for, and the terms and conditions of the invitations including Rights vesting conditions in accordance with the Rules.

Reasons for seeking Shareholder Approval

ASX Listing Rules 7.1 and 7.1A prohibit the Company issuing equity securities which, in aggregate, exceed 15% and an additional 10%, respectively, of the fully paid ordinary share capital of the Company in any 12-month period, unless the Company obtains shareholder approval for the issue (and in the case of Listing Rule 7.1A, the meeting of other threshold requirements) or an exception applies.

Exception 9(b) in ASX Listing Rule 7.2 provides that Listing Rules 7.1 and 7.1A do not apply to the issue of equity securities by the Company under an employee incentive scheme if the scheme has been approved by shareholders within 3 years before the date of issue.

The Company is seeking approval of the Austal Limited Rights Plan for the purposes of Listing Rule 7.2 exception 9(b) so that the issue of Rights (and any subsequent shares) under the plan will not reduce the Company's 15% capacity under Listing Rule 7.1.

Recommendation

The Directors (other than Mr Singleton, who abstains, as he may participate in the Plan) unanimously recommend that Shareholders vote in favour of Resolution 4.

The Chairman of the Meeting intends to vote undirected proxies in favour of Resolution 4.

5. Resolution 5 and 6 – Approval of the issue of Share Rights to Non-Executive Directors

The Board proposes to continue the existing incentive scheme which enables non-executive Directors of the Company to progressively acquire a shareholding in the Company with a value equal to his/her total annual base Board remuneration (excluding committee fees) (**Target Shareholding**). The scheme is an 'employee incentive scheme' for the purposes of the ASX Listing Rules although in order to preserve Director independence, it is not subject to Company performance measures or thresholds.

The issue of Share Rights under this scheme was approved by Shareholders at the 2017 and 2018 Annual General Meeting (with some adjustments in 2018). It is proposed to continue those arrangements in 2020.

Resolutions 5 and 6 seek Shareholder approval for Ms Sarah Adam-Gedge and Mr Chris Indermaur (together the **Non-Executive Directors**) respectively to receive Share Rights under this incentive scheme. Resolution 5 is subject to the passing of Resolution 3. The Company is not seeking approval to issue further share rights to Mr Giles Everist, as he has already accumulated a shareholding valued at more than his annual base Board remuneration.

The objective of the scheme remains to strengthen the alignment between the interests of the non-executive Directors and Shareholders. Importantly, until a Non-Executive Director holds a number of Shares equal to their Target Shareholding, they may not sell any Shares resulting from the exercise of the Share Rights received (except in circumstances of a change of control).

This scheme is implemented by remunerating each non-executive director that elects to participate through a combination of cash (75% of base Board remuneration) and Share Rights (25% of base Board remuneration). This remuneration model will continue until that non-executive director holds a number of Shares (or Share Rights that would, if exercised, result in a number of Shares) equal to their Target Shareholding.

The initial period in which this scheme was implemented was 27 October 2017 (the day after the 2017 Annual General Meeting) until 26 October 2018 (**Initial Period**). The scheme was re-implemented on 27 October 2018 (the day after the 2018 Annual General Meeting) until 1 November 2019 (then termed the 'Forthcoming Period' but for the purposes of this Notice shall be redefined as the '**2019 Period**')

The number of Share Rights granted to Non-Executive Directors during the Initial Period and 2019 Period pursuant to previous shareholder approval is as follows:

Name	Share rights issued in the Initial Period	2019 Period share rights Issued up to the date of this notice (1 Oct 2019)	2019 Period share rights To be issued by 1 November 2019	Total
Giles Everist	13,584	6,857	0	20,441
Sarah Adam-Gedge	13,584	8,449	549	25,876
Chris Indermaur	0	8,449	549	8,998
Total	27,168	23,755	1,098	55,315

The above 2019 Period issues were approved by shareholders at the 2018 Annual General Meeting and the Company now seeks approval to issue Share Rights for a further period of one year, being the period from 2 November 2019 (the day after the Company's Annual General Meeting) until the date of the 2020 Annual General Meeting (**2020 Period**).

Offers to participate in the incentive scheme will again be made to the above Non-executive Directors and will be calculated by reference to 25% of their base board fees (excluding committee fees) for the 2020 Period. If a Non-Executive Director chooses to participate, he/she will continue to receive 75% of their total annual base board fees (excluding committee fees) and all of their committee fees in cash. The Non-Executive Chairman is not currently expected to participate in the scheme due to his already significant shareholding in the Company. Mr Giles Everist has also accumulated and retains a shareholding, the value of which exceeds one year's base board fees and will not be included in this scheme for FY2020, hence no shareholder approval is being sought for their participation in the scheme at this meeting.

Subject to Shareholder approval, the number of Share Rights that may be granted to each Non-Executive Director will be calculated as follows:

$$SR = \frac{TBBF \times 25\%}{VWAP} \quad \text{(Issue Formula)}$$

Where:

'SR' is the aggregate number of Share Rights which the Non-Executive Director is entitled to be granted for the 2020 Period;

'TBBF' is the Non-Executive Director's total annual base board fees (excluding committee fees) for the 2020 Period; and

'VWAP' is the volume weighted average price of Shares traded on the ASX calculated over the last 5 trading days of each month during the 2020 Period.

Any fractional entitlements will be rounded up to the nearest whole number.

The Share rights granted to Non-Executive Directors for the 2020 Period will be accrued in 12 equal (or as near to equal as possible) tranches with one tranche to vest each month, and issued twice a year subject to the relevant Non-Executive Director being continuously engaged as a non-executive director on the applicable vesting date.

Upon a tranche of the Share Rights vesting and being exercised, a Non-Executive Director will be issued, allocated or transferred one Share for each Share Right exercised.

For example purposes only, the information below shows the number of Share Rights that would be issued pursuant to Resolutions 5 and 6. In preparing this information, the Issue Formula has been used and the VWAP for Shares has been assumed to be \$1.90.

The following applies in respect of each Non-Executive Director:

- Total annual base board fees (excluding committee fees) for the Forthcoming Period: \$100,000
- Fees to be paid in cash for the Forthcoming Period: \$75,000.
- Fees to be paid in Share Rights for the Forthcoming Period: \$25,000.
- Number of Share Rights to be granted for the Forthcoming Period: 13,158 - being \$25,000 divided by the assumed VWAP of \$1.90.
- 1/12th of Share Rights to vest each month during the Forthcoming Period (assuming continued service as a non-executive director).
- Dilutionary Effect: 0.000037%¹.

¹ Based on the number of Shares on issue as at the date of this Notice, being 356,447,443 Shares.

The numbers and amounts set out above are examples only and actual numbers and amounts may vary depending on the VWAP of Shares over the 5 trading days of each month during the Forthcoming Period.

Corporations Act Requirements

The Directors (other than Ms Adam-Gedge and Mr Indermaur, who each have a material personal interest in Resolutions 5 and 6) have considered the application of Chapter 2E of the Corporations Act to the grant of Share rights to the Non-Executive Directors. As the Non-Executive Directors are foregoing the cash payment of fees and those fees are within the Shareholder approved pool of Directors' fees, it has been determined that the financial benefit given by granting these Share rights constitutes reasonable remuneration to the Non-Executive Directors given:

- the circumstances of the Company, and
- the Non-Executive Directors' roles and responsibilities at the Company.

In light of the above, the Company will rely on the exception contained in section 211(1) of the Corporations Act and is not seeking Shareholder approval pursuant to section 208 of the Corporations Act in addition to the approval being sought under the ASX Listing Rules.

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 under an employee incentive scheme.

Accordingly, in order for each Non-Executive Director to participate in this incentive scheme and to receive Share Rights (and hence shares in the Company), the Company must obtain Shareholder approval pursuant to ASX Listing Rule 10.14.

ASX Listing Rule Disclosure Requirements

ASX Listing Rule 10.15 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 Resolutions 5 and 6 for the purposes of ASX Listing Rule 10.15:

- (a) The Share rights will be granted to Ms Sarah Adam-Gedge and Mr Chris Indermaur, who are related parties of the Company by virtue of being Non-Executive Directors.
- (b) The number of Share Rights to be granted to each participant for the 2020 Period will be determined in accordance with the Issue Formula set out above. As such, as at the date of this Notice, the Company cannot determine the exact number of Share rights to be issued to the Non-Executive Directors. ASX has provided a waiver to the Company in this respect.

In any case, the Board has resolved to limit the value of the maximum number of Share Rights that can be granted to the Non-Executive Directors, to be not greater than \$50,000 – total value of Share rights to be issued to Mr Indermaur and Ms Adam-Gedge (being 25% of TBBF for each Non-Executive Director).

One (1) Share will be issued, allocated or transferred to the Non-Executive Directors on exercise of a vested Share Right.

- (c) No consideration is payable for the grant of Share Rights, or (unless the Board otherwise determines at the time it makes an offer of Share Rights) for the issue, allocation or transfer of

Shares upon exercise of a vested Share Right. The Share Rights granted form part of the Company's remuneration and incentive package for non-executive Directors. Accordingly, no funds will be raised from the issue or vesting of Share Rights.

- (d) The names of the persons referred to in Listing Rule 10.14 who received Share Rights and the number of Share Rights received by those persons since the 2018 Annual General Meeting are set out in table above. No consideration was paid by those persons for the acquisition of Share Rights.
- (e) As at the date of this Notice of Meeting, no other persons referred to in ASX Listing Rule 10.14, apart from the Non-Executive Directors, are presently entitled to receive Share Rights under this incentive scheme (and anyone who becomes 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).
- (f) The voting exclusion statement in relation to Resolutions 5 and 6 accompanies Resolutions 5 and 6 in the Notice of Meeting.
- (g) No loans have or will be made by the Company in connection with the grant of Share Rights to the Non-Executive Directors.
- (h) The Company intends to invite the Non-Executive Directors to apply for Share Rights within 1 month from the date of the Meeting (and, in any case, no later than 12 months after the date of the Meeting) and the Share Rights will be issued no later than 12 months after the date of the Meeting.
- (i) Subject to the passage of Resolutions 5 and 6, any Share Rights granted on the terms set out in Attachment 1 (or Shares issued or transferred on the vesting and exercise of such Share Rights) will not count towards calculating the Company's 15% capacity to issue shares under ASX Listing Rule 7.1.

Recommendation

The Directors (with Ms Adam-Gedge and Mr Indermaur abstaining) recommend that Shareholders vote in favour Resolutions 5 and 6.

The Chairman of the Meeting intends to vote undirected proxies in favour of Resolutions 5 and 6.

6. Resolution 7 - Approval of the issue of LTI Rights to Mr David Singleton

Resolution 7 seeks Shareholder approval for the grant of up to 721,633 LTI Rights to Mr David Singleton (and any subsequent issue of Shares pursuant to those LTI Rights). The LTI Rights will be granted under the Austal Limited Rights Plan which is described at section 4 (above) of this Explanatory Memorandum.

Mr Singleton will be eligible to receive up to:

- (a) 492,402 LTI Rights for FY19; and
- (b) 229,231 LTI Rights for FY20.

The LTI Rights will be subject to vesting conditions (including as discussed at section 4 above), and the grant of LTI Rights to Mr Singleton is intended to act as a strong incentive for Mr Singleton to align with the Company's strategic plan focussing on seeking improved performance, the growth of the Company and better returns for Shareholders.

Listing Rule Requirements

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 Singleton to participate in the Plan and receive LTI Rights under the Plan over the next three years, the Company must obtain Shareholder approval pursuant to Listing Rule 10.14.

Listing Rule Disclosure Requirements

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

In accordance with Listing Rule 10.15A, the following information is provided to Shareholders in relation to Resolution 7:

- (a) The name of the person referred to in LR 10.14 who is entitled (pursuant to Resolution 7) to participate in the Plan and receive LTI Rights is Mr David Singleton. Mr Singleton is an Executive Director of the Company.
- (b) No other persons referred to in Listing Rule 10.14 are presently entitled to participate in the Plan (and any additional persons who become entitled to participate in the Plan after the resolution is approved and who are not named in this Notice of Meeting will not do so until after any Shareholder approval required under Listing Rule 10.14 (or otherwise under Chapter 10 of the Listing Rules) is obtained).
- (c) The maximum number of LTI Rights (and hence Shares) that may (in aggregate) be granted to Mr Singleton (being a participant in the Plan requiring Listing Rule 10.14 approval) is 721,633. Each LTI Right will also be subject to the satisfaction of vesting conditions as set out in section 4 (above). Each LTI Right that vests will result in the issue of the value of an ordinary Share, which may be settled in the form of cash or a Restricted Share (as defined in the explanation to Resolution 4 above), at the sole discretion of the Board.
- (d) No consideration is payable for the grant of LTI Rights under the Plan, or (unless the Board otherwise determines at the time it makes an offer of LTI Rights) for the issue or transfer of Shares upon vesting of LTI Rights granted under the Plan. The Plan (and LTI Rights issued under it) form part of the Company's remuneration and incentive package for Mr Singleton.
- (e) As the Plan is newly adopted, no LTI Rights (or other securities) have yet been issued under it to persons covered by Listing Rule 10.14.
- (f) The voting exclusion statement in relation to Resolution 7 accompanies Resolution 7 in the Notice of Meeting.
- (g) No loans have or will be made by the Company in connection with the acquisition of LTI Rights.
- (h) LTI Rights will not be granted under the Plan to Mr Singleton at any stage after 3 years from the date of the Annual General Meeting without obtaining any Shareholders approval required under the Listing Rules.
- (i) Details of Mr Singleton's holdings of interests in the Company are set out the Company's annual report. Details of the LTI Rights granted under the Plan will be published in each annual report of the Company relating to the period in which the LTI Rights have been granted (with a

statement that approval for the grant of LTI Rights to Mr Singleton was obtained under Listing Rule 10.14).

Subject to the passage of Resolution 7, the LTI Rights the subject of Resolution 7 (or Shares issued on the vesting of such Rights) will not count towards calculating the Company's 15% capacity to issue shares under Listing Rule 7.1.

7. Resolution 8 - Approval of the issue of STI Rights to Mr David Singleton

Resolution 8 seeks Shareholder approval for the grant of **115,290** STI Rights to Mr David Singleton (and any subsequent issue of Shares pursuant to those STI Rights). The STI Rights will be granted under the Austal Limited Rights Plan which is described at section 4 (above) of this Explanatory Memorandum.

Listing Rule Requirements

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

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

Listing Rule Disclosure Requirements

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

In accordance with Listing Rule 10.15A, the following information is provided to Shareholders in relation to Resolution 8:

- (a) The name of the person referred to in LR 10.14 who is entitled (pursuant to Resolution 8) to participate in the Plan and receive STI Rights is Mr David Singleton. Mr Singleton is an Executive Director of the Company.
- (b) No other persons referred to in Listing Rule 10.14 are presently entitled to participate in the Plan (and any additional persons who become entitled to participate in the Plan after the resolution is approved and who are not named in this Notice of Meeting will not do so until after any Shareholder approval required under Listing Rule 10.14 (or otherwise under Chapter 10 of the Listing Rules) is obtained).
- (b) The maximum number of STI Rights (and hence Shares) that may (in aggregate) be granted under the grant for the 2019 financial year to Mr Singleton (being a participant in the Plan requiring Listing Rule 10.14 approval) is 115,290. Each STI Right will also be subject to the satisfaction of vesting conditions as set out in section 4 (above). Each STI Right that vests will result in the issue of the value of an ordinary Share, which may be settled in the form of cash or a Restricted Share (as defined in the explanation to Resolution 4 above), at the sole discretion of the Board.
- (c) No consideration is payable for the grant of STI Rights under the Plan, or (unless the Board otherwise determines at the time it makes an offer of STI Rights) for the issue or transfer of Shares upon vesting of STI Rights granted under the Plan. The Plan (and STI Rights issued under it) form part of the Company's remuneration and incentive package for Mr Singleton.

- (d) As the Plan is newly adopted, no STI Rights (or other securities) have yet been issued under it to persons covered by Listing Rule 10.14.
- (e) The voting exclusion statement in relation to Resolution 8 accompanies Resolution 8 in the Notice of Meeting.
- (e) No loans have or will be made by the Company in connection with the acquisition of STI Rights.
- (f) STI Rights will not be granted under the Plan to Mr Singleton at any stage after 3 years from the date of the Annual General Meeting without obtaining any Shareholders approval required under the Listing Rules.
- (g) Details of Mr Singleton’s holdings of interests in the Company are set out the Company’s annual report. Details of the STI Rights granted under the Plan will be published in each annual report of the Company relating to the period in which the STI Rights have been granted (with a statement that approval for the grant of STI Rights to Mr Singleton was obtained under Listing Rule 10.14).

Subject to the passage of Resolution 8, the STI Rights the subject of Resolution 8 (or Shares issued on the vesting of such Rights) will not count towards calculating the Company’s 15% capacity to issue shares under Listing Rule 7.1.

Glossary

In the Notice of Meeting and this Explanatory Memorandum (including the Attachments), the following terms have the meaning set out below:

Term	Meaning
\$	Australian dollars.
ASX Listing Rules	the Listing Rules of the ASX.
ASIC	Australian Securities & Investments Commission
ASX	ASX Limited (ACN 008 624 691) or the Australian Securities Exchange operated by it, as the context requires.
Board	the board of directors of the Company.
Closely Related Party	has the meaning as defined in section 9 of the Corporations Act and includes in respect of a member of the Key Management Personnel: <ul style="list-style-type: none"> • a spouse or child of the member or a child of the member’s spouse; • a dependant of the member or of the member’s spouse; • anyone else who is one of the member’s family and may be expected to influence the member, or be influenced by the member, in the member’s dealings with the Company; or • a company the member controls.

Term	Meaning
Constitution	the constitution of the Company.
Corporations Act	the Corporations Act 2001 (Cth).
Director	a director of the Company.
Explanatory Memorandum	this Explanatory Memorandum accompanying the Notice of Meeting.
Meeting	the annual general meeting of the Company convened by the Notice of Meeting.
Non-Executive Director or NED	a Director of the Company who is not a member of the executive management team.
Notice of Meeting or Notice	the notice convening the Meeting that accompanies this Explanatory Memorandum.
Proxy Form	the proxy form included with the Notice of Meeting.
Shares or Ordinary Shares	fully paid ordinary shares in the Company.
Shareholder	the holder of Shares.
Share Right	a conditional right which, upon the satisfaction or waiver of the relevant vesting conditions and, if required by the Company, the exercise of that share right, entitles its holder to receive a Share.
WST	Western Standard Time, being the time in Perth, Western Australia.

Attachment 1 – Summary of key terms of the Austal Limited Rights Plan applicable to STI Rights

The following is a summary of the key terms and conditions of the proposed grants of STI Rights to Eligible Persons as defined in the Rules

- (a) **(Right):** Means an entitlement to the value of a Share (or, in the case of Austal USA Participants, an ADR) which may be settled in the form of cash, or a Share (including a Restricted Share), as determined by the Board in its discretion.
- (b) **(STI Right):** Means a Right issued under Austal's Short Term Incentive arrangements.
- (c) **(Number of Rights):** As determined by the Board. For the current period the number of STI Rights equals 50% of the value of a Participant's Short Term Incentive entitlement.
- (d) **(Share and Share Price):** A Share is a fully paid ordinary share in the Company, and the Share Price is determined by the volume weighted average share price at which the Company's shares were traded on the ASX over the 5 trading days prior to the date for which the calculation is made, or such other period as is prescribed by the relevant rules.
- (e) **(Term):** Each Right has a Term of 15 years and if not exercised within that Term the Rights will lapse
- (f) **(Eligible Person):** Means a full time or part-time employee (including an executive Director but excluding a non-executive Director) of a Group Company or a person who will prospectively fill one of the foregoing roles.
- (g) **(Application):** The document that must be submitted to apply for Rights under the Plan, which is annexed to the invitation sent by the Board to an Eligible Person.
- (h) **(Participant):** Eligible Persons whose Applications have been accepted and have been granted Rights will be referred to as Participants in the Plan. They will remain Participants until all Rights they have been granted have either lapsed or been exercised and both any risk of forfeiture and disposal restrictions applicable to the Shares acquired by exercising the Rights have ceased to apply.
- (i) **(Vesting of STI Rights):** STI Rights are vested at grant. No vesting conditions or Measurement Period applies thereafter, although the grant is subject to performance against measures applied over the financial year prior to the grant date. The vesting date will be notified to the Participant simultaneously with the grant date, in a Grant Notice incorporating the Vesting Notice.
- (j) **(Lapsing of Rights):** Rights will lapse automatically on the earlier of: For unvested Rights when there is no opportunity for them to vest at a later date, or the end of the Term of the Right.
- (k) **(Exercise and Exercise Price):** The Exercise Price is nil i.e. no amount needs to be paid by the Participant in order to exercise the Right. Vested Rights may be exercised at any time between the Vesting Date and the elapsing of the Term. On exercise of vested Rights, the Board will determine the Exercised Rights Value and the extent to which that value is to be provided in the form of cash, and/or Shares. In most cases, this will be in the form of Shares. Shares may be provided directly to the Participant or via an employee share trust (EST), and may involve on-market purchases or new issues of Shares. Any portion of the value of the vested Rights that is to be delivered in the form of cash will be paid through payroll with PAYG tax being deducted (as well as any other deductions that may be applicable or required by law).

(l) **(Dealing/ Disposal Restrictions Applicable to Rights and Shares):** Rights may not be transferred, disposed of, charged, encumbered or otherwise dealt with at any time, except by force of law. All Shares acquired by Participants or held by the trustee of the EST for the benefit of Participants as a consequence of the exercise of Rights shall be subject to a disposal restriction being that such Shares may not be sold or disposed of in any way until their sale would not breach either:

- i. the Company's share trading policy, or
- ii. Division 3 of Part 7.10 of the Corporations Act (insider trading provisions)

following expiry of the Specified Disposal Restriction, if any, applicable to the Shares.

(m) **(Specified Disposal Restriction)** A Specified Disposal Restriction is applicable to the Invitation which commences on the date STI Rights are provided to the Participant following exercise, if any, and elapses on the 30th June 2022. Specified Disposal Restrictions may be released early in limited circumstances in accordance with the Rules.

(n) **(No Hedging):** Participants must not enter into an arrangement with anyone if it would have the effect of limiting their exposure to risk in relation to Rights (vested or unvested) or Restricted Shares.

(o) **(Board Discretion to prevent inappropriate benefits):** If the Board in its sole, reasonable discretion forms the view that circumstances have arisen that would make vesting of unvested Rights held by a Participant inappropriate, the Board may determine that some or all Rights held by a Participant lapse on a specified date. Such circumstances include but are not limited to:

- i. if a Participant engages in any activities or communications that, in the opinion of the Board, may cause harm to the operations or reputation of the Company or the Board,
- ii. if the Board determines that a Participant or Participants took actions that caused harm or will (and would have been expected to, at the time of taking the action) cause harm to the Company's stakeholders,
- iii. if the Board forms the view that a Participant or Participants have taken excessive risks or have contributed to or may otherwise benefit from unacceptable cultures within the Company,
- iv. if the Board forms the view that Participants have deliberately or knowingly exposed employees, the broader community or environment to excessive risks above those which could ordinarily be expected, including risks to health and safety,
- v. if a Participant fails to adhere to post-termination agreements,
- vi. if there has been a material misstatement in the Company's financial reports, which once resolved, indicates that a larger number of Rights previously vested than should have, in light of the corrected information.

(p) **(Bonus Issues, Rights Issues):** In cases of bonus share issues by the Company the number of Rights held by a Participant shall be increased by the same number as the number of bonus shares that would have been received by the Participants had the Rights been fully paid ordinary shares in the Company, except in the case that the bonus share issue is in lieu of a dividend payment, in which case no adjustment will apply.

In the case of general rights issues to Shareholders there will be no adjustment to the Rights, although holders of Rights that have been exercised into Shares will be entitled to participate in those general issues on the same terms as all other Shareholders. However, the Board may consider issuing options to Participants:

- i. of a number up to the number of Shares to which the Participant would have been entitled had the Rights been Shares, and

- ii. the exercise price of such options will be equal to the amount payable by Shareholders to exercise a right to acquire a Share.

In the case of an issue of rights to other than to Shareholders there will be no adjustment to the Rights.

- (q) **(Capital Reorganisation):** In the case of other capital reconstructions the Board may make such adjustments to the Rights as it considers appropriate with a view to ensuring that holders of Rights are neither advantaged nor disadvantaged.
- (r) **(Termination of Employment):** If a Participant ceases to be an employee of a Group Company and is not immediately re-employed by another Group Company then 50% of any Restricted Shares held by the Participant will cease to be subject to any Specified Disposal Restrictions, unless otherwise determined by the Board and/or specified in the relevant Invitation.
- (s) **(Change of Control or Delisting):** in the event of a Change of Control including a takeover, or in the event the Board determines that the Company will be imminently de-listed for reasons other than a Change of Control, Specified Disposal Restrictions will be lifted.
- (t) **(Amendment of Plan):** The Board may at any time by written instrument, or by resolution of the Board, amend or repeal all or any of the provisions of the Rules. No amendment to or repeal of the Rules is to reduce the existing rights of any Participant in respect of any accepted Application that had commenced prior to the date of the amendment or repeal, other than with the consent of the Participant or where the amendment is introduced primarily:
 - i. for the purpose of complying with or conforming to a present or future State, Territory or Commonwealth legal requirement governing, regulating or effecting the maintenance or operation of the Plan or like plans;
 - ii. to correct an error or mistake;
 - iii. to address possible adverse tax implications for Participants generally or the Company arising from:
 - iv. a ruling of any relevant taxation authority;
 - v. a change to tax legislation or the application or termination of the legislation or any other statute or law (including an official announcement by any relevant taxation or government authority);
 - vi. a change in interpretation of tax legislation by a court of competent jurisdiction or by any relevant taxation authority; or
 - vii. to enable the Company to comply with the Corporations Act or the Listing Rules.

Attachment 2 – Summary of key terms of the Austal Limited Rights Plan applicable to LTI Rights

The following is a summary of the key terms and conditions of the proposed grants of LTI Rights to Eligible Persons as defined in the Rules

- (a) **(Right)**: Means an entitlement to the value of a Share (or, in the case of Austal USA Participants, an ADR) which may be settled in the form of cash, or a Share (including a Restricted Share), as determined by the Board in its discretion.
- (b) **(LTI Right)**: Means a Right issued under Austal's Long Term Incentive arrangements.
- (c) **(Share and Share Price)**: A Share is a fully paid ordinary share in the Company, and the Share Price is determined by the volume weighted average share price at which the Company's shares were traded on the ASX over the 5 trading days set out in any invitation letter.
- (d) **(Term)**: Each Right has a Term of 15 years and if not exercised within that Term the Rights will lapse
- (e) **(Eligible Person)**: Means a full time or part-time employee (including an executive Director but excluding a non-executive Director) of a Group Company or a person who will prospectively fill one of the foregoing roles.
- (f) **(Application)**: The document that must be submitted to apply for Rights under the Plan, which is annexed to the invitation sent by the Board to an Eligible Person.
- (g) **(Participant)**: Eligible Persons whose Applications have been accepted and have been granted Rights will be referred to as Participants in the Plan. They will remain Participants until all Rights they have been granted have either lapsed or been exercised and both any risk of forfeiture and disposal restrictions applicable to the Shares acquired by exercising the Rights have ceased to apply.
- (h) **(Measurement Period)**: 3 years from the beginning of the financial year in which the Rights are issued.
- (i) **(Vesting Conditions)**: Vesting Conditions may relate to performance of the Company or an aspect of the Company's operations or the performance of the Participant, or continued service of the Participant with a Group Company, or any combination of the foregoing determined by the Board.
- (j) **(Vesting of LTI Rights)**: Following the end of the Measurement Period, the Board will determine the extent to which LTI Rights have vested, if at all, and notify Participants. Prior to the end of a Measurement Period the Board may determine that some or all of the LTI Rights held by a Participant will vest in which case the Board will notify Participants. In such circumstances the Board also has absolute discretion to determine that Exercise Restrictions (if any) are lifted, and that any remaining unvested LTI Rights will be forfeited in which case the Board shall notify Participants in writing, in a form determined by the Board in its absolute discretion.
- (k) **(Board Discretion Regarding Vesting of LTI Performance Rights)**: The Board retains discretion to increase or decrease, including to nil, the extent of vesting in relation to LTI Rights if it forms the view that it is appropriate to do so given the circumstances that prevailed during the Measurement Period. In exercising this discretion, the Board shall take into account, amongst other factors it considers relevant, Company performance from the perspective of Shareholders

over the relevant Measurement Period, and the Board will act reasonably in exercising such discretion.

- (l) **(Lapsing of Rights)**: Rights will lapse automatically on the earlier of: for unvested Rights when there is no opportunity for them to vest at a later date, or the end of the Term of the Right.

- (m) **(Exercise and Exercise Price)**: The Exercise Price is nil i.e. no amount needs to be paid by the Participant in order to exercise the Right. Vested Rights may be exercised at any time between the Vesting Date and the elapsing of the Term. On exercise of vested Rights, the Board will determine the Exercised Rights Value and the extent to which that value is to be provided in the form of cash, and/or Shares. In most cases, this will be in the form of Shares. Shares may be provided directly to the Participant or via an employee share trust (EST), and may involve on-market purchases or new issues of Shares. Any portion of the value of the vested Rights that is to be delivered in the form of cash will be paid through payroll with PAYG tax being deducted (as well as any other deductions that may be applicable or required by law).

- (n) **(Dealing/ Disposal Restrictions Applicable to Rights and Shares)**: Rights may not be transferred, disposed of, charged, encumbered or otherwise dealt with at any time, except by force of law. All Shares acquired by Participants or held by the trustee of the EST for the benefit of Participants as a consequence of the exercise of Rights are initially Restricted Shares, and shall be subject to a disposal restriction being that such Shares may not be sold or disposed of in any way until their sale would not breach either:
 - iii. the Company's share trading policy, or
 - iv. Division 3 of Part 7.10 of the Corporations Act (insider trading provisions)following expiry of the Specified Disposal Restriction, if any, applicable to the Restricted Shares.

- (o) **(Specified Disposal Restriction)**: A Specified Disposal Restriction of 1 financial year after the end of the Measurement Period is applicable to the LTI Rights.

- (p) **(No Hedging)**: Participants must not enter into an arrangement with anyone if it would have the effect of limiting their exposure to risk in relation to Rights (vested or unvested) or Restricted Shares.

- (q) **(Board Discretion to prevent inappropriate benefits)**: If the Board in its sole, reasonable discretion forms the view that circumstances have arisen that would make vesting of unvested Rights held by a Participant inappropriate, the Board may determine that some or all Rights held by a Participant lapse on a specified date. Such circumstances include but are not limited to:
 - vii. if a Participant engages in any activities or communications that, in the opinion of the Board, may cause harm to the operations or reputation of the Company or the Board,
 - viii. if the Board determines that a Participant or Participants took actions that caused harm or will (and would have been expected to, at the time of taking the action) cause harm to the Company's stakeholders,
 - ix. if the Board forms the view that a Participant or Participants have taken excessive risks or have contributed to or may otherwise benefit from unacceptable cultures within the Company,
 - x. if the Board forms the view that Participants have deliberately or knowingly exposed employees, the broader community or environment to excessive risks above those which could ordinarily be expected, including risks to health and safety,
 - xi. if a Participant fails to adhere to post-termination agreements,

- xii. if there has been a material misstatement in the Company's financial reports, which once resolved, indicates that a larger number of Rights previously vested than should have, in light of the corrected information.
- (r) **(Bonus Issues, Rights Issues):** In cases of bonus share issues by the Company the number of Rights held by a Participant shall be increased by the same number as the number of bonus shares that would have been received by the Participants had the Rights been fully paid ordinary shares in the Company, except in the case that the bonus share issue is in lieu of a dividend payment, in which case no adjustment will apply.
In the case of general rights issues to Shareholders there will be no adjustment to the Rights although holders of Rights that have been exercised into Shares will be entitled to participate in those general issues on the same terms as all other Shareholders. However, the Board may consider issuing options to Participants:
- iii. of a number up to the number of Shares to which the Participant would have been entitled had the Rights been Shares, and
 - iv. the exercise price of such options will be equal to the amount payable by Shareholders to exercise a right to acquire a Share.
- In the case of an issue of rights to other than to Shareholders there will be no adjustment to the Rights.
- (s) **(Capital Reorganisation):** In the case of other capital reconstructions the Board may make such adjustments to the Rights as it considers appropriate with a view to ensuring that holders of Rights are neither advantaged nor disadvantaged.
- (t) **(Termination of Employment):** If a Participant ceases to be an employee of a Group Company and is not immediately re-employed by a Group Company, all unvested LTI Rights and Service Rights are forfeited and lapse at the date of termination, unless and to the extent otherwise determined by the Board. In exercising its discretion the Board may consider such factors as it deems appropriate, such as whether the Participant has been classified as a good leaver or not. LTI Rights that do not lapse at the termination of employment will continue to be held by Participants with a view to testing for vesting at the end of the Measurement Period. The Board has discretion to determine that any service conditions have been fulfilled at the end of the Measurement Period, regardless of whether or not a Participant remains employed by a Group Company..
- (u) **(Change of Control or Delisting):** In the event of a Change of Control including a takeover, or in the event the Board determines that the Company will be imminently de-listed for reasons other than a Change of Control, the Vesting Conditions attached to the LTI Rights at the time of the Application will cease to apply and:
- i. unvested LTI Rights will vest in the same proportion as the elapsed portion of the Measurement Period bears to the full Measurement Period, multiplied by the Target level of vesting for each tranche (100% for binary conditions), as at the date of the Change of Control,
 - ii. any remaining unvested LTI Rights will vest to the extent, if any, determined by the Board having regard to performance and service over the Measurement Period prior to the Change of Control,
 - iii. any unvested LTI Rights that do not vest pursuant to (i) and (ii) will lapse, unless the Board determines that Participants may continue to hold unvested Rights following the Change of Control.
- (v) **(Major return of Capital to Shareholders or Demerger):** In the event that the Board forms the view that a major part of the Company's assets or operations will imminently cease to be owned

by a Group Company due to an intention to sell or separately list those assets or operations, or in the event of a major return of capital to Shareholders;

- i. unvested LTI Rights will vest in the same proportion as the elapsed portion of the Measurement Period bears to the full Measurement Period, multiplied by the Target level of vesting for each tranche (100% for binary conditions), as at the date of the Change of Control, and
- ii. Any remaining LTI Rights will either be allowed to continue, lapse or vest in the sole discretion of the Board. The terms and conditions that apply to the remainder of the Rights that continue, in particular the standards of performance required for vesting, would then be reviewed to account for the Company's changed circumstances. The Board may seek independent advice regarding the application of its discretion in this circumstance.

(w) **(Amendment of Plan)**: The Board may at any time by written instrument, or by resolution of the Board, amend or repeal all or any of the provisions of the Rules. No amendment to or repeal of the Rules is to reduce the existing rights of any Participant in respect of any accepted Application that had commenced prior to the date of the amendment or repeal, other than with the consent of the Participant or where the amendment is introduced primarily:

- viii. for the purpose of complying with or conforming to a present or future State, Territory or Commonwealth legal requirement governing, regulating or effecting the maintenance or operation of the Plan or like plans;
- ix. to correct any manifest error or mistake;
- x. to address possible adverse tax implications for Participants generally or the Company arising from:
 - xi. a ruling of any relevant taxation authority;
 - xii. a change to tax legislation or the application or termination of the legislation or any other statute or law (including an official announcement by any relevant taxation or government authority);
- xiii. a change in interpretation of tax legislation by a court of competent jurisdiction or by any relevant taxation authority; or
- xiv. to enable the Company to comply with the Corporations Act or the Listing Rules.