

AUSTAL LIMITED

ACN 009 250 266

Notice of Annual General Meeting

and

Agenda

and

Explanatory Memorandum

Date of Meeting: Friday 30 October 2015

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 **Friday 30 October 2015 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 2015 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 2015 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 – Re-election of Mr John Rothwell**

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

"That Mr John Rothwell, who retires in accordance with Article 11.3 of the Company's Constitution and, being eligible, offers himself for election, be elected as a Director."

6. **Resolution 3 – Re-election of Mr David Singleton**

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

"That Mr David Singleton, who retires in accordance with Article 11.3 of the Company's Constitution and, being eligible, offers himself for election, be elected as a Director."

7. **Resolution 4 – Election of Mr Jim McDowell**

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

"That Mr Jim McDowell, who retires in accordance with Article 11.10 of the Company's Constitution and, being eligible, offers himself for election, be elected as a Director."

8. **Resolution 5 – 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 594,513 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 Wednesday 28 October 2015. 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**



John Rothwell
Non-executive Chairman
29 September 2015

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 **Friday 30 October 2015** 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 2015 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 2015 in order to improve the clarity and precision of the report. A copy of the Remuneration Report is set out on pages 15 - 32 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 2016 Annual General Meeting, the Company will be required to put to Shareholders a resolution at the 2016 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 2016 Annual General Meeting. All of the directors who were in office when the 2016 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 its detailed review and alignment of key management personnel remuneration governance, policies and practices. The Company's Nomination & Remuneration Subcommittee has been focussed on reviewing a number of areas of policy implementation in the company. The focus has been primarily on executive and non-executive remuneration, reviewing outcomes from the implementation of the Long Term Incentive (LTI) and Short Term Incentive plans and ensuring that all of these are properly aligned to positive shareholder outcomes using clear and challenging objectives. In order to carry out this activity, the Committee has taken inputs from several parties, including from proxy advisers and major institutional investors following the publication of last year's remuneration report. The Committee has also commissioned detailed analysis from an Independent Remuneration Expert which further built on the inputs from last year.

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

2. Resolution 2 – Re-election of Mr John Rothwell AO

Mr John Rothwell AO is required to retire under the Director rotation provisions of Article 11.3 of the Company's constitution. Mr Rothwell, being eligible, has offered himself for re-election as a Director.

The remaining Directors recommend to Shareholders that Mr Rothwell be re-elected.

3. Resolution 3 – Re-election of Mr David Singleton

Mr David Singleton is required to retire under the Director rotation provisions of Article 11.3 of the Company's constitution. Mr Singleton, being eligible, has offered himself for re-election as a Director.

The remaining Directors recommend to Shareholders that Mr Singleton be re-elected.

4. Resolution 4 – Election of Mr Jim McDowell

Mr Jim McDowell was appointed as a director of the Company on 31 December 2014 and is required to retire under the Director rotation provisions of Article 11.10 of the Company's constitution. Mr McDowell, being eligible, has offered himself for election as a Director.

Mr McDowell brings a strong, relevant industry background to Austal, with more than 30 years of experience in the defence and aerospace sectors. He was most recently Chief Executive Officer at BAE Systems Saudi Arabia operations. Prior to this, Mr McDowell was Chief Executive Officer at BAE Systems Australia where he oversaw a significant expansion of its operations.

Mr McDowell joined BAE Systems in 1996 and held senior management positions prior to his CEO roles. Before commencing at BAE Systems, he worked for 18 years at aerospace company Bombardier Shorts in legal, commercial, and marketing positions.

Mr McDowell returned to Australia in 2013. He has taken a strong interest in the continuing education sector, and is currently Chairman of the Australian Nuclear Science and Technology Organisation, as well as being a Non-executive Director at Codan Limited and Chancellor elect of the University of South Australia.

Jim holds a Bachelor of Laws from the University of Warwick in England

The remaining Directors recommend to Shareholders that Mr McDowell be elected.

5. Resolution 5 – Approval of the issue of Performance Rights to Mr. Andrew Bellamy

Resolution 5 seeks Shareholder approval for the grant of 594,513 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**).

The board undertook a review of the LTI plan following its initial 2 years of operation and implemented a number of changes. The purpose was to ensure that the scheme continued to drive long term executive performance as well as meet normal industry practice. Notable changes were made to award levels and performance measures - these are detailed in the Annual Report. In particular:

- the Total Shareholder Return (**TSR**) measure has been changed from an absolute TSR to an indexed TSR (**iTSR**) following market feedback. iTSR will now be calculated based on a comparison of Austal’s TSR against the S&P All Ordinaries Accumulation index “XAOAI”; and
- the weighting of performance measures has also been amended from TSR 30% / ROIC 70% to iTSR 40% / ROIC 60%.

Performance Rights issued would vest subject to the terms of the plan in accordance with the following performance criteria:

Measure	Weight	Threshold ¹	Vesting %	Performance
Indexed TSR	40%	<= 100%	0%	At or below Threshold
		100% < iTSR < 200%	Pro-rata	Target
			50%	
		Pro-rata	Stretch or Above	
>= 200%	100%			
ROIC	60%	8.0%	0%	At or below Threshold
		10.0%	Pro-rata	Target
			50%	
		Pro-rata	Stretch or Above	
12.0%	100%			
Total	100%			

1. 100% is equal to the average TSR of companies included in the XAOAI Index as defined above.

If approved by Shareholders and subject to meeting performance criteria, the Performance Rights issued in accordance with this Resolution would vest in the 2018 calendar year following completion of the 3 year performance period.

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 at the end of the performance period in 3 years' time (or beforehand in accordance with LTI Plan Rules), 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 5 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 5) 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) If approved, this issue of Performance Rights to Mr Bellamy would result in a maximum of 594,513 shares being issued to Mr Bellamy at the end of the 3 year performance period, subject to achievement of the performance criteria set out above.
- (d) To date, excluding the Performance Rights described in this Resolution 5, the number of Performance Rights issued to Mr Bellamy (and therefore the maximum number of securities that may be issued without further shareholder approval) is as follows:
 - 1) 143,658 Performance Rights issued following shareholder approval in November 2012, which are eligible to vest after 30 June 2016, subject to achievement of performance criteria and in accordance with transitional vesting arrangements; and
 - 2) 379,390 Performance Rights issued following shareholder approval in October 2014, of which up to 25% are eligible to vest after 30 June 2016 and 75% may vest after 30 June 2017, subject to achievement of performance criteria and in accordance with transitional vesting arrangements
- (e) 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.
- (f) No loans have or will be made by the Company in connection with the acquisition of Performance Rights.
- (g) Performance Rights will not be granted under the LTI Plan to Mr. Bellamy at any stage after 3 years from the date of the 2015 Annual General Meeting without obtaining any Shareholders approval required under the ASX Listing Rules.

- (h) 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 5, 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.