



Austal Limited (ASX: ASB) Corporate Governance Statement - 2017

Introduction

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

In reporting on corporate governance for the financial year ended 30 June 2017, the Company has elected to place this Corporate Governance Statement on its website instead of including it in the Annual Report. However, further information about the Directors and the Company's approach to corporate governance can be found elsewhere on the Company's website and in its Annual Report.

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

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

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

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

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

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

Principle 1 – Lay solid foundations for management and oversight

ASX Recommendation addressed:	1.1
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1.1 Board roles and responsibilities

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

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

1.2 Functions of Management

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

The functions reserved to senior management are summarised as follows:

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

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

1.4 Performance review

ASX Recommendations addressed:	1.3, 1.4, 1.6, 1.7
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The performance of key executives is reviewed regularly against both quantitative and qualitative indicators. All executives are subject to formal performance reviews conducted by the CEO on an annual basis, and the results of those reviews are shared with the Nomination and Remuneration Committee as appropriate. The performance criteria against which they are assessed are aligned with the financial and non-financial objectives of the Company.

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

The performance of both the executives and Directors was assessed during the year in accordance with the above process. The Board noted that subject to identifying and engaging a further director to reinstate the number of Board members to 5, it is satisfied with the outcome of those assessments and the performance of the Company’s executives and Directors. The Company was pleased to announce the appointment of Ms Sarah Adam-Gedge to the Board in August 2017, restoring the number of directors to 5, including a majority of Independent directors.

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

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

1.5 Diversity at Austal

ASX Recommendation addressed:	1.5
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Austal recognises that developing a diverse workforce is critical in building its organisational capability and maintaining a high level of performance, and values the distinctive skills, experiences and perspectives each individual brings to the workplace. The Company is committed to ensuring all employees are treated with respect and given equal opportunities for employment and development, and the Board has adopted an Equity and Diversity policy which can be found on the Company's website.

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

The Company was pleased to announce the appointment of Ms Sarah Adam-Gedge as a new member of the Board on 25 August 2017. Ms Adam-Gedge brings significant experience in the development of new technologies and will be an excellent addition to the Board as the Company develops and implements digital shipyard and smart ship technologies.

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

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

In addition, the Company supplements these practices with specific initiatives targeted at increasing the number of women in the workplace (particularly in tradesmen and women and apprenticeship roles) and veterans who have service in the Australian Armed Forces. The initiatives adopted include:

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

The initiatives adopted for increasing veteran participation include:

- Being an employee sponsor of the Australian Government Veterans Employment Program; and
- Membership of the Defence Force Industry Focus Group.

The Company emphasises equal opportunity for employment. In addition to the appointment of Sarah Adam-Gedge to the Company Board, women are represented in other roles. Women currently occupy professional, management and senior management roles across the business in the following numbers:

Business Unit	% of Senior Management roles filled by women	% of Management roles filled by women	% of professional roles filled by women
Australian Operations	12.5%	19.5%	19.2%
USA Operations	0%	10%	21%
Philippines Operations	14%	0%	9%

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

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

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

Principle 2: Structure the Board to add value

ASX Recommendations addressed:	1.2, 2.1, 2.2, 2.3, 2.4, 2.5, 2.6, 8.1
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2.1 Appointment of Directors

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

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

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

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

2.2 Nomination and Remuneration Committee

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

- Mr Jim McDowell (Committee Chair)
- Mr Giles Everist
- Mr John Rothwell AO

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

The Nomination and Remuneration Committee’s functions are described in its charter, which is reviewed and updated annually and published on the Company’s website. In accordance with the committee charter, the Committee is responsible for identifying the skills and capabilities needed on the Board in the event of a Board vacancy arising. It is also responsible for ensuring that the Board possesses the required skills, experience and balance required for the Company to conduct its business in a manner consistent with the interests of shareholders. In doing so it has

developed a skills matrix setting out the skills considered important for board members to bring to the company, along with an assessment of the relative importance of each skill. The skills matrix is set out below.

Skill	Requirements Overview	Importance
Professional Director Skills		
Risk & Compliance	Identify key risks to the organisation related to each area of operations and manage through the development of appropriate policy parameters. Ability to monitor risk and compliance, and knowledge of legal and regulatory requirements.	Medium
Financial & Audit	Experience in accounting and finance; ability to analyse statements, assess financial viability, contribute to financial planning, oversee budgets, oversee funding arrangements.	High
Strategy	Ability to identify and critically assess strategic opportunities and threats to the organization. Develop strategies in context to Austal policies and business objectives.	High
Legal, IP and Technology	Knowledge of IT Governance including privacy, data management and security.	Medium
Executive Management	Experience in evaluating performance of senior management, and oversee strategic human capital planning. Experience in industrial relations and organizational change management programs.	Medium
Government Relations & Public Policy	Experience in political lobbying or advising key government stakeholders on business, policy, legislation or regulation. Experience in managing significant government transactions.	High
International	Experience in international relations and managing cultural diversity. Ability to assess and interpret challenges and opportunities outside of the Australian domestic market.	Medium
Industry Specific Skills		
Shipbuilding	Experience in shipbuilding design, build and support.	Medium
Defence	Knowledge of Australian defence networks and stakeholders. Ability to consider how present defence policies, processes and methods could affect future developments and trends of the organisation.	Medium
Manufacturing	Experience in heavy manufacturing processes and systems	Medium
Interpersonal Skills		
Leadership	Make decisions and take necessary actions in the best interest of the organisation, and represent the organisation favorably. Analyse issues and contribute at board level to solutions.	High
Ethics and Integrity	Understand role as director and continue to self-educate on legal and regulatory responsibilities; ability to maintain board confidentiality, declare any conflicts.	High

Contribution	Ability to constructively contribute to board discussions and communicate effectively with management and other directors.	Medium
Negotiation	Possess excellent negotiation skills, with the ability to drive stakeholder support for board decisions.	High
Crisis Management	Ability to constructively manage crises, provide leadership around solutions and contribute to communications strategy with stakeholders.	Medium
Diversity and Board Experience		
Board Composition	Composition of board members addresses the diversity measures of age, gender, culture and disability.	Medium
Previous Board Experience	Director experience and completion in formal training in governance and risk.	Medium

Following David Singleton's appointment as Chief Executive Officer in 2016, the Board considered in detail what additional experience and capabilities are most desirable for any replacement director to bring to the role, having regard to the Company's strategic plans and the skills and experience of existing Board members. The Board identified that experience in the following areas would enhance the current balance of skills at Board level and provide additional capability for the Company to carry out its strategic plans:

- experience in developing technology and the implementation of new technologies on capital goods;
- experience in the global marketing and sales of major capital equipment; and
- experience in the improvement of manufacturing processes.

Experience and skills in the above areas shaped the Company's search for another Non-executive Director, along with considerations of how incoming Board members will fit within and contribute towards the Company's culture and particular strengths. The appointment of Sarah Adam-Gedge was the result of an extensive search, focused on these areas and the Board is excited and confident about the contributions Sarah will make towards the Company's development of its digital shipyard and smart technologies.

In accordance with the Company's constitution, Ms Adam-Gedge's appointment will be on a casual basis pending her confirmation as a director by shareholders at the Company's 2017 Annual General Meeting.

Ms Adam-Gedge's appointment has reinstated the number of Board members to 5, being 3 Independent Directors and 2 Directors who are not considered to be 'Independent' (as that term is described below).

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

2.3 Independence

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

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

- whether a Director is a substantial shareholder of the Company, or affiliated with a substantial shareholder of the Company;
- whether the Director is employed or has previously been employed by the Company, the nature of that employment and the period (if any) between ceasing employment and commencing as a Director;

- whether the Director has been a member or principal of an organisation that has provided services or consulted to the Company within the last 3 years;
- whether the Director is, or is affiliated with a material supplier to or customer of the Company; and
- whether the Director has a material contractual relationship with the Company other than as a Director.

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

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

Name	Position
Giles Everist	Non-executive Director
Jim McDowell	Non-executive Director
Sarah Adam-Gedge	Non-executive Director

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

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

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

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

2.4 Outside Directorships

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

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

2.5 Board and Committee meetings

The number of meetings of Directors (including meetings of committees of Directors) held during the 2016-17 financial year and the number of meetings attended by each Director was as follows:

	Meeting		
	Board	Audit & Risk Committee	Nomination & Remuneration Committee
Number of meetings held	6	4	3
Number of meetings attended			
John Rothwell ¹	6	0	3
David Singleton	6	4	3
Giles Everist	6	4	3
Jim McDowell	6	4	3

Notes to this table:

1. John Rothwell is not a member of the Audit & Risk Committee.

Principle 3: Act ethically and responsibly

ASX Recommendation addressed:	3.1
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3.1 Ethical standards and performance

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

- act honestly and in good faith;
- exercise due care and diligence in fulfilling the functions of their office;
- use their powers to act in the best interests of the Company as a whole;
- avoid conflicts and make full disclosure of any possible conflict of interest;
- comply with the law;
- be independent in judgement and ensure all reasonable steps are taken to be satisfied as to the soundness of Board decisions;
- encourage the reporting and investigating of unlawful and unethical behaviour; and
- comply with the share trading rules and other Company policies.

The Company also has a general Code of Conduct that was updated in August 2016 and applies to all employees across the Austal Group. A summary of the Code of Conduct is published on the Company's website.

3.2 Share Trading Policy

All employees, including Directors, are required to comply with the Company's share trading policy, which may from time to time be adjusted by the Board and applies in addition to legislative requirements and the ASX Listing Rules. The Company's Share Trading Policy was updated in 2015 and has been reviewed annually since then.

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

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

Principle 4: Safeguard integrity in corporate reporting

ASX Recommendations addressed:	4.1, 4.2, 4.3
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4.1 Audit & Risk Management Committee

The Company's Audit & Risk Management Committee currently has 2 members, both of whom are independent Non-Executive Directors. They are:

- Mr Giles Everist (Committee chair) and
- Mr Jim McDowell

Two 2 directors constitutes a quorum of the Committee, however the Company will also consider appointing Ms Adam-Gedge to the Committee as part of her duties as a Director. . The Committee also benefits from the attendance of the Company's auditors at Committee meetings in February and August each year, prior to the release of half-year and full year results.

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

- reviewing the Company's financial reporting processes to ensure the integrity, accuracy and timeliness of the Company's financial accounts;
- reviewing the internal controls, policies and procedures the Company uses to identify and manage business risks;
- reviewing and shaping the policies and procedures for ensuring compliance with relevant regulatory and legal requirements, and good corporate governance practice;
- ensuring compliance with statutory reporting responsibilities;
- assessing the effectiveness of the management of business risk and reliability of management reporting; and
- reporting any significant deficiencies in the above to the Board.

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

- the scope and rigour of the audit;

- The quality of the service provided, considered from the shareholders' point of view.
- The independence of the auditor.

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

4.2 Executive confirmation of accounts

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

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

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

4.3 Auditor attendance at AGM

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

Principle 5: Make timely and balanced disclosure

ASX Recommendation addressed:	5.1
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5.1 Continuous disclosure

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

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

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

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

Principle 6: Respect the rights of security holders

ASX Recommendations addressed:	6.1, 6.2, 6.3, 6.4
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6.1 Shareholder communications

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

6.2 Key investor engagement activities

(a) Annual General Meeting

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

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

(b) Annual report

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

(c) Regular release of financial information

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

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

(d) Investor briefings

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

(e) Company website

The Company posts all ASX announcements on its website immediately after they are published by ASX and maintains that information on the website for 4 years. The Company's website also includes other relevant news in the form of media releases, presentations and publications and events planning in order to ensure shareholders and interested parties are up to date with the Company's operations.

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

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

(f) Shareholder enquiries

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

Principle 7: Recognise and manage risk

ASX Recommendations addressed:	7.1, 7.2, 7.3, 7.4
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7.1 Risk management and internal control

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

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

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

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

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

A fundamental objective of management, overseen by the Board, is to ensure that risk management measures are embedded in its operations by investing in appropriate risk management tools and personnel, and educating the Company's employees in their roles in managing risk.

7.2 Risk review

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

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

The output of these reviews forms part of the Board's development of corporate strategy to ensure that (i) risks are appropriately managed and (ii) the Company is in a position to act on strategic opportunities while minimising the Company's exposure to those risks. The Board reviews the Company's risk management framework regularly as part of its strategic discussions, and the matters that the Company has identified pose the most potential risk to the business are as follows:

- **LCS program in the USA.** LCS is Austal's biggest single contract and could be cancelled or curtailed by the US Government at any time. Austal currently has firm orders for ships up to LCS 28 (vessels up to and including LCS 10 have been delivered thus far) and expects further orders in US fiscal year 2017 and 2018 but these orders are not guaranteed to materialise. The US Government has also announced an early curtailment of the LCS version of the small surface combatant programme to be replaced by a FFG(X) program in 2020 which may or may not be based upon the LCS platform.

The US Navy completed physical "shock trials" of LCS 6 in July 2016 to measure and assess the impact of an explosive charge detonated at a specified proximity to the vessel whilst underway at sea. The specific results of these trials remain classified by the US Navy, and are unlikely to ever be released to either Austal or the public in light of the extreme sensitivity of the vessel's capability to withstanding the impact of shock.

Austal has not been advised of any material issues regarding vessel performance by the US Navy, however the analysis conducted by the US Navy has not been finalised which means that the risk of incurring additional cost to address issues that may be identified by the analysis cannot be discounted entirely.

The residual risk regarding the performance of LCS and the shock trial analysis will reduce over time as the vessel continues to demonstrate its capabilities.

- **EPF program in the USA.** The currently stated acquisition program for the EPF vessel is for 10 ships although 12 vessels have been ordered to date. The US fiscal year 2017 budget contains no plans for further vessel orders. Austal is of the view that further vessels may be ordered in future but this presents a significant risk and may not occur.
- **Offshore Patrol Vessel (OPV) in Australia.** The OPV contract represents the single most important program for the Henderson shipyard operations in Australia due to the size and duration of the potential contract. Austal is in a joint venture with Fassmer of Germany for this contract in competition with 2 other consortia. Failure to win the contract will seriously impede the future viability of the Australian operations and could lead to partial or full closure of the Henderson shipyard operations when current contracts come to an end.
- **Commercial Ferries.** The commercial high speed aluminium ferry business is a key market for Austal and provides significant workload to both the Philippines and Australia business units. Whilst there is strong current evidence of significant growth in this market, this cannot be guaranteed. The ferry industry can be adversely affected by economic, political, social, security and other factors which delay or eliminate future orders for vessels or even cancellations of current vessels as was experienced following the financial crisis of 2008. Closure of this market could force a closure of shipyards or severe curtailment of operations.
- **Product Liability.** Austal's products are typically large and complex. A high degree of expertise is required in their construction but also in their operation and sustainment. The customers to which Austal sells its vessels and the environments in which our vessels are used – whether defence, paramilitary or commercial – are equally demanding. The risk of product failure or fault applies to every manufacturing business, however the unique complexities of large vessel design and construction, and the particularly taxing conditions in which Austal's vessels operate generally mean that the potential consequences of any issues with either construction or operation are significant. Austal has a comprehensive insurance portfolio in place to mitigate this risk but coverage is subject to typical limitations, so material claims arising from either construction issues, or by third parties following operational issues, could require Austal to either undertake significant remedial or restorative work at its own expense, or potentially pay compensation to third parties if insurance coverage is restricted, delayed or not available.
- **Banking Arrangements.** Austal has financial facilities provided by a syndicate of four banks with financial covenants that must be adhered to at all times. A material down turn in the financial performance of the Austal Group could result in a breach of these covenants which would place Austal in default of its banking arrangements. A financial breach could result in Austal needing to raise capital from debt or equity markets on unfavourable terms or result in the Directors of Austal or the banking syndicate placing Austal in administration, receivership or liquidation.
- **Tax treatment in Australia, USA and other jurisdictions.** Austal believes that it has materially met its tax obligations in the jurisdictions that it operates which includes cross border tax arrangements currently under scrutiny by authorities around the world including the ATO (Australia) and the IRS (USA). Austal is currently reviewing its tax arrangements which could alter its tax treatment both in Australia and overseas and is therefore seeking tax rulings and agreements between international revenue authorities to reduce the risk.
- **Health, safety and environment.** Austal is exposed to typical health and safety risks associated with the operation of major manufacturing facilities like shipbuilding yards. Potential safety events include those arising from working from heights and in confined spaces, operation of lifting machinery, fabrication tools and the use of hazardous substances. Further, given the nature of Austal's operations, particularly their close proximity to waterways, there is also risk of impacting the surrounding environment.

Austal has a number of measures in place to mitigate these risks. Austal has Safety, Health and Environment Management Plans that underpin all of Austal's operations and clearly outline its health, safety and environment strategies. The SHE Plans are monitored by SHE teams at each shipbuilding facility. Austal's ongoing focus is achieving 'Zero Harm and Zero Waste' and ensuring it meets applicable health and safety and environmental legislative standards.

Austal has a certified management system to OHSAS 18001 and AS/NZS 4801. Austal also has a formal Risk Management Framework, designed in accordance with ISO31000: *Risk Management – Principles and Guidelines*, which is aligned to Australian Defence standard ABR6492 and the Royal Australian Navy

Technical Regulations Manual. Austal considers itself an industry leader in overall safety performance however it is acknowledged that as an industrial manufacturer, a degree of risk will always be present.

- **Cyber security.** Austal’s production of vessels for the Australian government and governments of other countries means that it handles sensitive information. Austal has established information handling policies and standards and cyber security measures that seek to prevent the disclosure and theft of such information. However, around the world we have seen the ability of parties to hack into even the most well protected systems and create sometimes high levels of interference or public disclosure which may include but are not limited to, demands of large financial payments or interruption of service. Given Austal's position in defence contracting in the USA, Australia and around the world such a breach could inflict severe damage on the Company and in the extreme, affect its ability to continue operations.

7.3 Risk Management

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

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

SHE risks and mitigation measures are regularly reviewed and updated, with regular SHE audits to ensure adoption of the measures identified. All risks and their mitigations are developed on the basis of seeking to understand their impact on the community (both internal and external), safety and the environment. As set out above, however, in light of the nature of the Company’s business, some risks can only be mitigated (rather than removed entirely), hence a degree of risk remains in these areas notwithstanding the considered mitigation measures in place.

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

Principle 8: Remunerate fairly and responsibly

ASX Recommendations addressed:	8.2, 8.3
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8.1 Remuneration strategy

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

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

The Company's approach to remuneration, including the structuring of executive remuneration and the role of incentives, is set out in detail in the Remuneration Report that appears in the Company's Annual Report. Only executives and employees are eligible to participate in the Company's incentive schemes (whether those schemes are based on STI, LTI or employee share plans). Non-Executive Directors are currently paid a fixed fee which does not include any performance-based remuneration, in order to maximise the benefit of their independence and eliminate the potential for conflicts of interest to arise.

The Company has undertaken a further review of remuneration arrangements, particularly in relation to Non-executive Directors, to ascertain whether there is a way to improve alignment between the long term interests of shareholders and the execution of duties by Non-executive Directors, without compromising their independence. As a result of this review, the Company has resolved to revise existing remuneration arrangements so that Non-executive Directors receive an appropriate portion of their fixed fees as equity, subject to shareholder approval.

Further details will be provided in relation to this in due course and the proposal will be put to shareholders for resolution at the Company's 2017 Annual General Meeting.

Those employees who are eligible for performance rights under the Company's Long Term Incentive Plan are prohibited by the Plan rules from entering arrangements to limit the participant's exposure in relation to those entitlements. The Board also retains broad discretion to determine that a Participant's entitlement to Performance Rights is forfeited or reduced in the event of serious misconduct, fraudulent behaviour or dishonesty.

Date and approval

Save in respect of the comments regarding the appointment of Ms Sarah Adam-Gedge as a Director of the Company (which was announced on 25 August 2017 and will continue on a casual basis until her confirmation by shareholders at the 2017 Annual General Meeting), this Corporate Governance Statement is current at 30 June 2017, which is the Company's balance date for the purposes of preparing its 2017 annual results. It was reviewed and approved by the Board on 25 August 2017 and remained accurate at that date of approval.



Corporate Governance Statement

Checklist against Recommendations of the ASX Corporate Governance Council

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

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

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

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

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

	<p>(1) has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and</p> <p>(2) is chaired by an independent director, who is not the chair of the board,</p> <p>and disclose:</p> <p>(3) the charter of the committee;</p> <p>(4) the relevant qualifications and experience of the members of the committee; and</p> <p>(5) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; OR</p> <p>(b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.</p>	<p>(a) Compliant</p> <p>(b) Not applicable</p>	<p>(a) CGS 2.5, 4.1, Directors Report</p>
4.2	The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the	Compliant	CGS 4.2

	opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.		
4.3	A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.	Compliant	CGS 4.3
ASX Corporate Governance Council Principle 5 – make timely and balanced disclosure			
5.1	A listed entity should: <ul style="list-style-type: none"> (a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and (b) disclose that policy or a summary of it. 	<ul style="list-style-type: none"> (a) Compliant (b) Compliant 	<ul style="list-style-type: none"> (a) CGS 5.1; Company website (b) CGS 5.1; Company website
ASX Corporate Governance Council Principle 6 – Respect the rights of security holders			
6.1	A listed entity should provide information about itself and its governance to investors via its website.	Compliant	CGS 6.1, 6.2
6.2	A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.	Compliant	CGS 6.2
6.3	A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.	Compliant	CGS 6.2
6.4	A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.	Compliant	CGS 6.2

ASX Corporate Governance Council Principle 7 – recognise and manage risk			
7.1	<p>The board of a listed entity should:</p> <p>(a) have a committee or committees to oversee risk, each of which:</p> <p>(1) has at least three members, a majority of whom are independent directors; and</p> <p>(2) is chaired by an independent director,</p> <p>and disclose:</p> <p>(3) the charter of the committee;</p> <p>(4) the members of the committee; and</p> <p>(5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; OR</p> <p>(b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity’s risk management framework.</p>	<p>Board has an Audit and Risk Subcommittee.</p> <p>(a) Temporary non – compliance explained in CGS</p> <p>(b) Not applicable</p>	<p>(a) CGS 4.1, 7.1, Directors Report</p>
7.2	<p>The board or a committee of the board should:</p> <p>(a) review the entity’s risk management framework at least annually to satisfy itself that it continues to be</p>	<p>(a) Compliant</p>	<p>(a) CGS 4.1, 7.1, 7.2, 7.3</p>

	<p>sound; and</p> <p>(b) disclose, in relation to each reporting period, whether such a review has taken place.</p>	(b) Compliant	(b) CGS 4.1, 7.1, 7.2, 7.3
7.3	<p>A listed entity should disclose:</p> <p>(a) if it has an internal audit function, how the function is structured and what role it performs; OR</p> <p>(b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes</p>	<p>(a) Compliant</p> <p>(b) Compliant</p>	<p>(a) CGS 7.1, 7.2, 7.3</p> <p>(b) CGS 7.1, 7.2, 7.3</p>
7.4	<p>A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.</p>	Compliant	CGS 7.3
ASX Corporate Governance Council Principle 8 – Remunerate fairly and responsibly			
8.1	<p>The board of a listed entity should:</p> <p>(a) have a remuneration committee which:</p> <p>(1) has at least three members, a majority of whom are independent directors; and</p> <p>(2) is chaired by an independent director,</p> <p>and disclose:</p> <p>(3) the charter of the committee;</p>	(a) Compliant	(a) CGS 2.1, Directors Report

	<p>(4) the members of the committee; and</p> <p>(5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; OR</p> <p>(b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.</p>	(b) Not applicable.	(b) Not applicable
8.2	A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.	Compliant	CGS 8.1
8.3	<p>A listed entity which has an equity-based remuneration scheme should:</p> <p>(a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and</p> <p>(b) disclose that policy or a summary of it.</p>	Compliant	CGS 8.1