

AUSTAL LIMITED

ACN 009 250 266

Notice of Annual General Meeting

and

Agenda

and

Explanatory Memorandum

Date of Meeting: Friday 28 October 2016

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 28 October 2016 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 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 2016 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 2016 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 Giles Everist**

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

"That Mr Giles Everist, 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 – Approval of the issue of shares to Mr David Singleton**

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

"That for the purposes of Listing Rule 10.14 and for all other purposes, Shareholders approve the issue of:

1. 296,473 fully paid ordinary Shares to Mr David Singleton (or his permitted nominee) as fixed equity-based remuneration for the period 8 February 2016 – 30 June 2016; and
2. A further number of fully paid ordinary shares to Mr David Singleton (or his permitted nominee) every 6 months over the next 3 years (commencing in January 2017) as fixed equity-based remuneration for the 2017, 2018 and 2019 financial years, to the value of 30% of his salary and determined on a monthly basis by reference to the volume-weighted average price of the Company's Shares over the last 5 trading days of each month during that period,

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

Voting Exclusion Statement

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

In accordance with Listing Rule 14.11, the Company will disregard any votes cast on this Resolution by (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 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.

7. **Resolution 4 – Approval of the issue of Performance 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 958,339 Performance Rights under the Austal Limited Long Term Incentive Plan to Mr David Singleton 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 (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 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 26 October 2016. Accordingly, transactions registered after that time may (at the Company's discretion) 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
28 September 2016

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 28 October 2016** 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 2016 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 2016 in order to improve the clarity and precision of the report. A copy of the Remuneration Report is set out on pages 18 - 41 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 2017 Annual General Meeting, the Company will be required to put to Shareholders a resolution at the 2017 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 2017 Annual General Meeting. All of the directors who were in office when the 2017 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's Nomination & Remuneration Subcommittee again reviewed remuneration governance, policies and practices to ensure alignment with positive shareholder outcomes using clear and challenging objectives. In order to carry out this activity, the Committee has taken inputs from several parties, including remuneration consultants (as disclosed in the 2016 Annual Report), proxy advisers and major institutional investors following the publication of last year's remuneration report.

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

2. Resolution 2 – Re-election of Mr Giles Everist

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

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

3. Resolution 3 – Approval of the issue of shares to Mr David Singleton

Background

Resolution 3 seeks Shareholder approval for the issue of Shares to Mr. David Singleton (or his permitted nominee) in satisfaction of the Company's contractual obligation to make a Share-based payment to Mr. Singleton under his contract of employment.

Mr. Singleton commenced employment as Chief Executive Officer-designate on 8 February 2016 and formally commenced as CEO on 4 April 2016 after a transitional period during which Mr. Andrew Bellamy formally handed over the role.

Mr Singleton has voluntarily agreed with the Board that 30% of his salary will be paid in Shares of the Company (subject to Shareholder approval), to be held on trust for him although he has the ability to request that the shares are released to him. This fixed equity-based remuneration is part of Mr Singleton's salary and is payable from 8 February 2016 (as distinct from his proposed LTI entitlements discussed below, which apply from the date on which he assumed the sole CEO role).

Subject to Shareholder approval, Shares issued under this resolution will be held on his behalf by the trustee of the Company's employee share plan, to be released to Mr. Singleton upon receipt of a written request from him. This is intended to facilitate Mr Singleton maintaining a Shareholding in the Company, thus strengthening the alignment between the interests of the executive and Shareholders.

The Shares would be issued to the trustee to hold on Mr. Singleton's behalf in separate tranches representing each 6 month period worked (pro-rated in respect of the initial period between commencing employment on 8 February and 30 June 2016) as described below.

1. Tranche 1: Shares issued under terms of employment for the period 8 February 2016 – 30 June 2016

The number of Shares to be issued as fixed equity-based remuneration for this period is calculated by dividing the value of the Share-based payment (that is, 30% of Mr. Singleton's salary) by the volume-weighted average price ("VWAP") of the Company's Shares traded on ASX calculated over the 5 trading days immediately prior to the end of each month during that period. The VWAP and hence number of shares to be issued to the trustee on behalf of Mr Singleton for each month during this period was as follows.

Monthly TFR	30% of monthly TFR	Month	VWAP for last 5 trading days of month	Shares to be issued
\$87,612	\$26,283	Feb 2016	\$1.27	20,730
\$87,612	\$26,283	March 2016	\$1.51	17,456
\$87,612	\$26,283	April 2016	\$1.57	16,790
\$87,612	\$26,283	May 2016	\$1.34	19,647
\$87,612	\$26,283	June 2016	\$1.20	21,850
Total				96,473

Subject to Shareholder approval, these 96,473 Shares will be issued shortly after the Annual General Meeting.

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

The number of Shares to be issued to the trustee on behalf of Mr. Singleton over the next 3 years is not currently known as it will depend on the Company's Share price at the end of each month during this period. However the number of Shares issued each year will follow the above formula and will not exceed 30% of his salary on an annual basis – that is, an annual amount equal to up to 30% of his salary for each month based on the 5 day VWAP over the last 5 trading days of that month. The number of Shares issued to Mr Singleton in accordance with this resolution over the 3 year period would also be subject to an overall limit of \$1,000,000 worth of Shares in the aggregate. Subject to Shareholder approval and the Company determining to issue the relevant Shares, these Shares will be issued to the trustee on behalf of Mr Singleton every 6 months over the next 3 years (commencing in January 2017) or such lesser period as the Board determines.

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

The issue of Shares to Mr. Singleton is treated by ASX pursuant to the ASX Listing Rules as being issued pursuant to an 'employee incentive scheme', notwithstanding that the arrangement only applies to Mr. Singleton and forms part of his salary. Accordingly, Shareholders approval for the issue of the Shares to Mr. Singleton is required pursuant to ASX Listing Rule 10.14.

ASX Listing Rule Requirements

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

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

ASX Listing Rule Disclosure Requirements

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

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

ASX Listing Rule 10.15A.1: The approval sought under Resolution 3 is in relation to the issue of Shares to Mr. Singleton who is a director of the Company;

ASX Listing Rule 10.15A.2: The Company has obtained a waiver from ASX in respect of compliance with the requirements of ASX Listing Rule 10.15A.2. The waiver allows the Company not to include the maximum number of Shares that may be issued to Mr. Singleton as this number is presently not ascertainable due to it being based on a formula which includes a future share price. The waiver was granted on the basis that the Company sets out the method by which the number of Shares to be issued will be calculated. The number of Shares to be issued to Mr. Singleton will be calculated as 30% of his salary each month divided by the VWAP for the Company's Shares for the last 5 trading days in each month. Further, the number of Shares issued to Mr Singleton in accordance with this resolution over the 3 year period would also be subject to an overall limit of \$1,000,000 worth of Shares in the aggregate.

ASX Listing Rule 10.15A.3: No cash amount will be payable to the Company in respect of the issue of these Shares (rather, they are being issued by the Company in satisfaction of the provisions of Mr. Singleton's contract of employment and in return for the provision of services by Mr. Singleton pursuant to that contract). The value of the Shares for the purposes of calculating the Mr. Singleton's entitlement is the volume weighted average market price for each month in respect of which the Shares are issued, calculated as set out above.

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

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

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

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

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

- (a) Details of any Shares issued under the scheme will be published in each annual report of the Company relating to a period in which Shares have been issued, together with a statement that approval for the issue of the Shares was obtained under ASX Listing Rule 10.14.
- (b) Any additional persons who become entitled to participate in the scheme after this Resolution 3 is approved and who are not named in this Notice will not participate in the scheme until approval is obtained under ASX Listing Rule 10.14.

ASX Listing Rule 10.15A.9: If approved by Shareholders, the Company intends to issue the Shares in November 2016 and every 6 months (commencing in January 2017). The ASX Listing Rules provide that the Shares may be issued at any time up to 3 years after the Annual General Meeting.

The Directors (with Mr Singleton abstaining) recommend that shareholders vote in favour of this resolution.

4. Resolution 4 – Approval of the issue of Performance Rights to Mr. David Singleton

Resolution 4 seeks Shareholder approval for the grant of 958,339 Performance Rights to Mr. David Singleton (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 changes to the LTI Plan that were implemented in FY2016 have been maintained in the FY2017 plan. The purpose of the changes was to ensure that the scheme continued to drive long term executive performance as well as meet normal industry practice. LTI entitlements are measured over a standard measurement period of three years, however the Board has discretion to modify the duration of the measurement period if it deems an extension to be appropriate. If approved by Shareholders and subject to meeting performance criteria, it is expected that the Performance Rights issued in accordance with this Resolution would vest on 1 July 2019.

In accordance with existing arrangements, The Company uses two long term performance measures:

1. Indexed Total Shareholder Return (iTSR)

The Board believes this measure best reflects an external measure of performance. iTSR determines the shareholder returns of Austal relative to the market rather than capturing the absolute performance of the Austal group.

A relative peer group TSR was considered however it was not possible to identify a comparator group of companies that was statistically significant enough to be meaningful. The Board was concerned that this would undermine the link between executive performance and reward outcomes and therefore decided to adopt the iTSR measure.

iTSR applies to all grants of LTI from FY2016 based on a comparison of Austal's TSR against the S&P All Ordinaries Accumulation index "XAOA". iTSR accounts for 40% of the LTI measurement.

2. Return on Invested Capital (ROIC)

The Board believes this to be the best measure of long term performance from an internal perspective by recognising the long term nature of investment in fixed assets necessary in a shipbuilding business.

ROIC is calculated by dividing the Net operating profit after tax by Net Assets (excluding Cash, Debt, Derivatives and Tax accounts). ROIC accounts for 60% of the LTI measurement.

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

<u>Measure</u>	<u>Weight</u>	<u>Threshold¹</u>	<u>Vesting %</u>	<u>Performance</u>
Indexed TSR	40%	<= 100%	0%	At or below Threshold
			Pro-rata	
		100% < iTSR < 200%	50%	Target
			Pro-rata	
		>= 200%	100%	Stretch or Above
ROIC	60%	< 6.6%	0%	At or below Threshold
			Pro-rata	
		6.6%	25%	Threshold
			Pro-rata	
		7.4%	50%	Target
			Pro-rata	
		> 8.3%	100%	Stretch or Above
Total	100%			

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

The grant of Performance 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.

The Directors (with Mr Singleton abstaining) 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. Singleton to participate in the LTI Plan and receive Performance Rights (and hence shares), 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 Resolution 4 for the purposes of ASX Listing Rule 10.15:

- (a) The name of the person referred to in ASX Listing Rule 10.14 who is entitled (pursuant to Resolution 4) to participate in the LTI Plan and receive Performance Rights is Mr David Singleton. Mr. Singleton is an Executive Director of the Company.
- (b) If approved, the maximum number of Performance Rights (and hence shares) that may be issued to Mr Singleton will be 958,339.
- (d) No consideration is payable for the grant of Performance Rights under the LTI Plan, or (unless the Board otherwise determines at the time it makes an offer of Performance Rights) for the issue or transfer of Shares upon vesting of Performance Rights granted under the LTI Plan. The LTI Plan (and Performance Rights issued under it) form part of the Company's remuneration and incentive package for executives.
- (e) To date, excluding the Performance Rights described in this Resolution 4, the number of Performance Rights issued to Mr Singleton is nil. Mr Andrew Bellamy (the Company's former Chief Executive Officer and Managing Director) and Mr Michael Atkinson (a former Executive Director) were the only people referred to in rule 10.14 who received securities under the LTI Plan since it was last approved in 2012. Mr Bellamy received a total of 1,261,216 Performance Rights between 2012 and 2015 and Mr Atkinson received 102,728 securities under the LTI Plan in 2012.
- (f) No other persons referred to in ASX Listing Rule 10.14 apart from Mr Singleton 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).
- (g) The voting exclusion statement in relation to Resolution 4 accompanies Resolution 4 in the Notice of Meeting.
- (h) No loans have or will be made by the Company in connection with the acquisition of Performance Rights.
- (i) The Company will issue the Performance Rights to Mr. Singleton as soon as practicable following the meeting and no later than 12 months after the meeting.
- (h) Subject to the passage of Resolution 4, 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.