

AUSTAL LIMITED

ACN 009 250 266

Notice of Annual General Meeting

and

Agenda

and

Explanatory Memorandum

A PROXY FORM IS ENCLOSED

Date of Meeting: Friday 26 October 2018

Time of Meeting: 3.00pm (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.

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

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that an Annual General Meeting of the Shareholders of Austal Limited will be held at the **Fremantle Sailing Club, Marine Terrace, Fremantle, Western Australia** on **Friday, 26 October 2018 at 3.00pm (WST)** for the purpose of transacting the business referred to on the pages following this Notice of Annual General Meeting.

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

Agenda

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

Receipt of the consolidated financial statements of Austal Limited (the **Company**) and its subsidiaries for the year ended 30 June 2018 together with the Directors' declaration and Report in relation to that financial year and the Auditors' report on those financial statements.

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

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

"That the Remuneration Report as set out in the Annual Report for the year ended 30 June 2018 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 2 of the Explanation Memorandum for details.

Voting Exclusion Statement

*To the extent required by section 250R of the Corporations Act, the Company will disregard any votes cast in favour of this Resolution by or on behalf of a member of the Key Management Personnel ("**KMP**") (which includes each of the directors), named in the Company's 2018 Remuneration Report, or that KMP's Closely Related Party (in any capacity), unless the vote is cast:*

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

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

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

"That Mr Giles Everist, being a director of the Company who retires in accordance with Article 8.1(f) of the Company's Constitution and, being eligible, is re-elected as a director of the Company."

6. **Resolution 3 – Election of Mr Chris Indermaur**

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

"That Mr Chris Indermaur, having been appointed as a director of the Company on a casual basis since the last annual general meeting and who retires in accordance with Article 8.1(b) of the Company's Constitution, and being eligible, is elected as a director of the Company."

7. **Resolution 4 – Approval of the issue of Share Rights to Ms Sarah Adam-Gedge**

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

"That, subject to the passing of Resolution 2, pursuant to and in accordance with Listing Rule 10.14 and for all other purposes, Shareholders approve the grant of Share Rights valued at \$23,750 to Ms Adam-Gedge on the terms and conditions set out in the Explanatory Memorandum, and any issue of Shares pursuant to those Share Rights."

Voting Exclusion Statement

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

In accordance with Listing Rule 14.11, the Company will disregard any votes cast in favour of this Resolution by (i) Ms Adam-Gedge and by any associates of Ms Adam-Gedge; and/or (ii) a director of the Company (except one who is ineligible to participate in 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.*

8. **Resolution 5 – Approval of the issue of Share Rights to Mr Giles Everist**

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

"That pursuant to and in accordance with ASX Listing Rule 10.14 and for all other purposes, Shareholders approve the grant of Share Rights valued at \$23,750 to Mr Giles Everist on the terms and conditions set out in the Explanatory Memorandum, and any issue of Shares pursuant to the Share Rights."

Voting Exclusion Statement

In accordance with section 250BD of the Corporations Act, a person appointed as proxy must not vote, on the basis of that appointment, on this Resolution if the person is either a member of the KMP or a Closely Related Party of such a member and the appointment does not specify the way the proxy is to vote on this Resolution. However, the proxy may vote if the proxy is the chair of the meeting and the appointment expressly authorises the chair to

exercise the proxy even if the resolution is connected directly or indirectly with the remuneration of a member of the KMP.

In accordance with Listing Rule 14.11, the Company will disregard any votes cast in favour of this Resolution by (i) Mr Everist and by any associates of Mr Everist; 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.*

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

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

“That pursuant to and in accordance with ASX Listing Rule 10.14 and for all other purposes, Shareholders approve the grant of Share Rights valued at \$23,750 to Mr Chris Indermaur on the terms and conditions set out in the Explanatory Memorandum, and any issue of Shares pursuant to those Share Rights.”

Voting Exclusion Statement

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

In accordance with Listing Rule 14.11, the Company will disregard any votes cast in favour of this Resolution by (i) Mr Indermaur and by any associates of Mr Indermaur; and/or (ii) a director of the Company (except one who is ineligible to participate in 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 two 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 the Company 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, Link Market Services Ltd at the following details

if by Post: Austal Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
Australia

If by Facsimile: +61 2 9287 0309

If by Hand: Link Market Services Limited
1A Homebush Bay Drive
Rhodes NSW 2138

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

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

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

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

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

Corporate Representatives

A Shareholder that is a corporation may appoint an individual to act as its representative and vote in person at the Meeting. The appointment must comply with the requirements of section 250D of the Corporations Act. Written proof of the representative's appointment (including any authority under which it is signed) must be lodged with, or presented to the Company's share registry before the Meeting.

Shareholders can download and fill out the 'Appointment of Corporate Representation' form from Link Market Services Limited's website – www.linkmarketservices.com.au. Hover over 'Resources' Select the Investor Services tab and click on 'Forms' and then select 'Holding Management'.

Voting Entitlement

It has been determined that under regulation 7.11.37 of the *Corporations Regulations 2001* (Cth), for the purposes of determining voting entitlements at the Annual General Meeting, Shares will be taken to be held by the persons who are registered as holding the Shares at 4.00pm (WST) (being 7.00pm Sydney time) on Wednesday, 24 October 2018.

**BY ORDER OF THE BOARD
AUSTAL LIMITED**

A handwritten signature in black ink, appearing to be 'John Rothwell', written over a background of horizontal lines. The signature is stylized and somewhat cursive.

John Rothwell
Non-executive Chairman
21 September 2018

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, 26 October, 2018** at **3.00pm (WST)**.

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

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

Ordinary Business

1. Annual financial report

The Corporations Act requires:

- the reports of the Directors and Auditors; and
- the annual financial report, including the financial statements of the Company for the year ended 30 June 2018,

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

Also, a reasonable opportunity will be given to Shareholders as a whole at the Meeting to ask the auditor of the Company's 2018 financial statements questions relevant to the conduct of the audit, the preparation and content of the auditor's report, the accounting policies adopted by the Company in relation to the preparation of the financial statements and the independence of the auditor in relation to the conduct of the audit.

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

The Corporations Act requires listed companies to make expanded disclosure in respect of director and executive information. As a result, the Directors' Report must include a section called the "Remuneration Report". The Annual Report for the year ended 30 June 2018 contains a Remuneration Report which sets out the remuneration policy for the Company and reports the remuneration arrangements in place for the executive Directors, specified executives and Non-Executive Directors. A copy of the Remuneration Report is set out on pages 39-59 of the Annual Report and can also be found on the Company website at www.austal.com.

Section 250R(2) of the Corporations Act requires listed companies to put the Remuneration Report for each financial year to a vote of members at the Company's annual general meeting.

Under section 250R(3) of the Corporations Act, the Shareholder vote on this Resolution is advisory only and will not bind the Directors or the Company. 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 section 250W of the Corporations Act, if 25% or more of the votes cast on the resolution are voted against adoption of the Remuneration Report at the Annual General Meeting and then again at the 2019 Annual General Meeting, the Company will be required to put to Shareholders a resolution at the 2019 Annual General Meeting proposing the calling of a further general meeting to consider the election of directors of the Company (a “**Spill Resolution**”).

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 2019 Annual General Meeting. All of the directors who were in office when the 2019 directors’ report was approved by the directors, other than the Managing Director, would cease to hold office immediately before the end of the Spill Meeting but may stand for re-election at the Spill Meeting. 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. Votes cast in favour of this resolution by such parties will be disregarded. 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 (the “**Committee**”) 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 shareholders, proxy advisers and major institutional investors following the publication of last year’s remuneration report.

As foreshadowed in the 2018 Remuneration Report, the Committee has determined to modify to the Company’s Long Term Incentive Plan in order to clarify performance measures (to improve employee engagement with the plan) and better align the objectives with those of shareholders – these are discussed in more detail below.

Recommendation

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

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

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

Mr Giles Everist is required to retire under the Director rotation provisions of Article 8.1(f) of the Company's constitution. Mr Everist, being eligible, has offered himself for re-election as a Director.

Mr Everist has a breadth of board and executive experience gained over his 30 year career. He has worked for a range of production and service based businesses, within the resources, engineering and construction sectors, both in Australia and overseas in the UK and Africa.

Mr Everist was appointed as a Non-Executive Director of Austal Ltd in November 2013 and Audit & Risk Committee Chair in November 2015. He holds a mechanical engineering degree and is a qualified chartered accountant. He was Chairman of ASX listed Decmil Group Limited between 2011 and 2014 and was the Chief Financial Officer and Company Secretary of Monadelphous Group Limited between 2003 and 2009. He has held senior financial executive roles during his career with Rio Tinto in the United Kingdom and Australia, as well as major US design engineering group Fluor Corporation.

Giles has held a number of other Non-Executive Director and Audit & Risk Committee Chair roles with ASX listed companies including Decmil Group Limited, Logicamms Limited and Macmahon Holdings Limited, as well as for a number of private and not for profit organisations.

Giles is currently a Non-Executive Director of Norwood Systems and Chief Financial Officer of Macmahon Holdings Limited.

Recommendation

The Directors (with Mr Everist abstaining) unanimously recommend that Shareholders vote in favour of Resolution 2.

The Chairman of the Meeting intends to vote undirected proxies in favour of Resolution 2.

4. Resolution 3 – Election of Mr Chris Indermaur

Jim McDowell's appointment as an independent Non-executive Director of Austal formally ceased on 28 August 2018 when he took up his new role with the Department of Premier and Cabinet in South Australia.

Since then, Austal has undertaken searches to identify a replacement and as announced to the ASX on 14 September 2018, the Board determined to appoint Mr Chris Indermaur as an independent Non-executive Director of the Company. In accordance with the Company's constitution, Mr Indermaur's appointment is on a casual basis until his first Annual General Meeting. The Board therefore nominates Mr Indermaur for a permanent appointment at this Annual General Meeting in accordance with clause 8.1(c) of the Company's constitution.

Mr. Indermaur has over 30 years of experience in large Australian companies in engineering or commercial roles. Among these roles he was the Engineering and Contracts Manager for the QNI Nickel Refinery at Yabulu, Company Secretary for QAL and General Manager for Strategy and Development at Alinta Ltd.

Chris holds a Bachelor of Engineering (Mechanical) and a Graduate Diploma of Engineering (Chemical) from the West Australian Institute of Technology (now Curtin University). Chris also holds a Bachelor of Laws and a Master of Laws from the Queensland University of Technology and a Graduate Diploma in Legal Practice from the Australian National University.

Chris is also the Chairman of Medibio Ltd and Poseidon Nickel Ltd, and a Director of Austin Engineering Ltd and of Centrex Metals Ltd.

Recommendation

The Directors (with Mr Indermaur abstaining) unanimously recommend that Shareholders vote in favour of Resolution 3.

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

Resolutions 4 to 6 – Approval of the issue of Share Rights to Non-Executive Directors

The Board proposes to continue the existing incentive scheme which enables non-executive directors of the Company to progressively acquire a shareholding in the Company with a value equal to his/her total annual base board fees (excluding committee fees) (**Target Shareholding**). The scheme will be an 'employee incentive scheme' for the purposes of the ASX Listing Rules.

The scheme is the same as the scheme approved by shareholders at the 2017 Annual General Meeting, with the following 2 amendments:

- withdrawal of the provision for adjustment of the number of shares issued, which is discussed further below; and
- amendment of the VWAP calculation from the 5 trading days up to the Annual General Meeting each year, to the VWAP over the last 5 trading days of each month in the financial year in respect of which Share Rights are issued.

Resolutions 4, 5, and 6 seek Shareholder approval for Sarah Adam-Gedge, Giles Everist and Chris Indermaur (together the **Non-Executive Directors**) respectively to receive Share Rights under this incentive scheme on the terms and conditions set out in these explanatory notes and Attachment 1. Resolution 6 is subject to the passing of Resolution 3.

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

This proposal would be implemented by remunerating each non-executive director that elects to participate through a combination of cash and Share Rights. It is anticipated that this remuneration model would continue until that non-executive director holds a number of Shares (or Share Rights that would, if exercised, result in a number of Shares) equal to their Target Shareholding. The initial period in which this scheme was implemented was 27 October 2017 (the day after the 2017 Annual General Meeting) until 26 October 2018 (**Initial Period**).

The number of share rights granted to Non-executive Directors during the Initial Period pursuant to previous shareholder approval is as follows:

Name	Issued up to the date of this notice (26 Sep 2018)	To be issued by 31 October 2018	Total
Giles Everist	11,320	2,264	13,584
Sarah Adam-Gedge	11,320	2,264	13,584
Jim McDowell	11,320	0	11,320
Chris Indermaur	0	0	0
Total			38,488

The above issues were approved by shareholders at the 2017 Annual General Meeting and the Company now seeks approval to issue Share Rights for a further period of one year, being the period from 27 October 2018 (the day after the Company's Annual General Meeting) until the date of the 2019 Annual General Meeting (**Forthcoming Period**).

Offers to participate in the incentive scheme will again be made to the Non-executive Directors and will be calculated by reference to 25% of their base board fees (excluding committee fees) for the Forthcoming Period. If a Non-Executive Director chooses to participate, he/she will continue to receive 75% of their total annual base board fees (excluding committee fees) and all of their committee fees in cash. The Non-Executive Chairman is not currently expected to participate in the scheme due to his already significant shareholding in the Company.

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

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

Where:

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

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

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

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

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

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

For example purposes only, the information below shows the number of Share Rights that would be issued pursuant to Resolutions 4 to 6. In preparing this information, the Issue Formula has been used and the VWAP for Shares has been assumed to be \$1.90.

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

- Total annual base board fees (excluding committee fees) for the Forthcoming Period: \$95,000
- Fees to be paid in cash for the Forthcoming Period: \$71,250.
- Fees to be paid in Share Rights for the Forthcoming Period: \$23,750.
- Number of Share Rights to be granted for the Forthcoming Period: 12,500 - being \$23,750 divided by the assumed VWAP of \$1.90.
- 1/12th of Share Rights to vest each month during the Forthcoming Period (assuming continued service as a non-executive director).
- Dilutionary Effect: 0.00003%¹.

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

¹ Based on the number of Shares on issue as at the date of this Notice, being 351,649,486 Shares.

Changes to the arrangements for issue of Share Rights to Non-executive Directors in FY2019

The arrangements approved by shareholders at the 2017 Annual General Meeting allowed the Board to adjust the number of share rights issued in the Initial Period if it determined that the value of those Share Rights did not equal up to 25% of the Non-executive Directors' base fees.

Following feedback from shareholders, the Board has determined:

- not to make an adjustment of the number of Share Rights issued for the Initial Period; and
- to amend arrangements for the Forthcoming Period and beyond by removing the adjustment provision from these arrangements in future, so that the number of Share Rights issued can no longer be adjusted in the event of substantial movement in the share price.

The Board has also determined to change the VWAP calculation from the 5 trading days up to the Annual General Meeting, to the last 5 trading days of each month during the Forthcoming Period. This is to ease administration of the plan and align it with the calculation of share rights issued to other Company executives under the Company's long term incentive plan. It will mean the number of Share Rights issued each month may differ, though the monetary value each month will be equal to one twelfth of the total amount of \$23,750.

Corporations Act Requirements

The Directors (other than Ms Adam-Gedge, Mr Everist and Mr Indermaur who have a material personal interest in Resolutions 4 to 6) have considered the application of Chapter 2E of the Corporations Act to the grant of Share Rights to the Non-Executive Directors. As the Non-Executive Directors are foregoing the cash payment of fees and those fees are within the Shareholder approved pool of directors' fees, it has been determined that the financial benefit given by granting these Share Rights constitutes reasonable remuneration to the Non-Executive Directors given:

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

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

ASX Listing Rule Requirements

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

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

ASX Listing Rule Disclosure Requirements

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

The following information is provided in relation to Resolutions 4 to 6 for the purposes of ASX Listing Rule 10.15:

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

In any case, the Board has resolved to limit the value of the maximum number of Share Rights that can be granted to the Non-Executive Directors, to be not greater than \$71,250 (being \$23,750 for each Non-Executive Director).

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

- (c) No consideration is payable for the grant of Share Rights, or (unless the Board otherwise determines at the time it makes an offer of Share Rights) for the issue, allocation or transfer of Shares upon exercise of a vested Share Right. The Share Rights granted form part of the Company's remuneration and incentive package for non-executive directors. Accordingly, no funds will be raised from the issue or vesting of Share Rights.
- (d) To date and as set out above, a total of 38,488 Share Rights have been issued to non-executive directors on the terms set out in Attachment 1.
- (e) As at the date of this Notice of Meeting, no other persons referred to in ASX Listing Rule 10.14, apart from the Non-Executive Directors, are presently entitled to receive Share Rights on the terms set out in Attachment 1 (and anyone who becomes entitled to participate will not do so until after any Shareholder approval required under ASX Listing Rule 10.14 (or otherwise under chapter 10 of the ASX Listing Rules) is obtained).
- (f) The voting exclusion statement in relation to Resolutions 4 to 6 accompanies Resolutions 4 to 6 in the Notice of Meeting.
- (g) No loans have or will be made by the Company in connection with the grant of Share Rights to the Non-Executive Directors.
- (h) The Company intends to invite the Non-Executive Directors to apply for Share Rights within 1 month from the date of the Meeting (and, in any case, no later than 12 months after the date of the Meeting) and the Share Rights will be issued no later than 12 months after the date of the Meeting.
- (i) Subject to the passage of Resolutions 4 to 6, any Share Rights granted on the terms set out in Attachment 1 (or Shares issued or transferred on the vesting and exercise of such Share Rights) will not count towards calculating the Company's 15% capacity to issue shares under ASX Listing Rule 7.1.

Recommendation

The Directors (with Ms Adam-Gedge, Mr Everist and Mr Indermaur abstaining) recommend that Shareholders vote in favour Resolutions 4, 5 and 6.

The Chairman of the Meeting intends to vote undirected proxies in favour of Resolutions 4, 5, and 6.

5. Proposed changes to Long Term Incentive Plan for executives

As indicated in the 2018 Remuneration Report (set out in the Company's 2018 Annual Report), the Board has determined to modify the Company's Long Term Incentive Plan (**LTI Plan**).

This decision was driven by significant developments in the shipbuilding industry, particularly in Australia. The Australian Federal Government has committed to \$90 billion of expenditure on a new fleet of Submarines, Frigates and Offshore Patrol Boats. The impact of these programs on the existing skills base in Australia is likely to be unprecedented. This will drive a major skills shortage across leadership, program management, production control, product support and design, which may have the effect of disrupting Austal's skill base. This represents a risk for the business as Austal also enters a period of strong ship design and build growth.

Austal will mitigate this risk by (among other initiatives) revising the LTI Plan to include measures that support the long term retention of employees and are clearly aligned with employees' roles and their ability to influence the operations of the business.

The Company will continue to use two long term performance measures in calculating LTI entitlements. The Board considers these measures best reflect the Company's performance from a balance of external and internal perspectives. These measures are as follows:

1. Total Shareholder Return (TSR)

Total Shareholder Return will be retained as a performance measure but on an absolute basis rather than the previous relative TSR. The Board determined that an absolute TSR measure provides more clarity and is more easily understood by employees, shareholders and other external stakeholders.

TSR will account for 50% of the LTI Plan measurement.

2. Business Improvement, return on sales and increased profitability

Following detailed consideration by the Nomination and remuneration Committee and the Board, the Company has determined to cease using the Return on Invested Capital (**ROIC**) measure from the 2019 financial year onwards. Instead, the remaining 50% of LTI entitlements will be based on more bespoke objectives that will deliver step changes in the financial performance of the business over the current rolling 3 year performance periods. These can be summarised as:

- significant increase in revenue and earnings derived from support and sustainment in Austal's USA business;
- Extension of current shipbuilding programs for EPF and LCS or derivatives to ensure revenue and margin stability for the longer term;
- Initiatives to support the integration and growth of the commercial shipbuilding capability of the group across Australia and Asia to meet set capacity and cost objectives; and
- Increased profitability targets of the non USA business (commercial and defence).

These measures will be set out in more detail in the Company's 2019 Annual Report and they will account for the remaining 50% of LTI Plan measurement.

The Board has also determined that shares issued to directors under the LTI Plan (at the completion of the 3 year performance period) will be purchased on-market in future, rather than issued as new equity, in order to address any shareholder concerns regarding potential dilution of shareholdings.

Attachment 1 – Summary of the key terms of grants of Share Rights to the Non-Executive Directors

The following is a summary of the key terms and conditions of the proposed grants of Share Rights to the Non-Executive Directors:

- (a) **(Eligibility)** The Board may from time to time invite eligible non-executive directors of the Company (or its subsidiaries) to receive Share Rights (**Eligible Participants**).
- (b) **(Share Rights)** The Company may issue Share Rights to one or more Eligible Participants. A Share Right is a conditional right which, upon the satisfaction or waiver of the relevant vesting conditions and, if required by the Company, the exercise of that share right, entitles its holder to receive an ordinary share in the Company.
- (c) **(Offers)** Unless otherwise set out in the explanatory information provided to Shareholders, the terms of the offers to the Eligible Participants, including the number of Share Rights, the number of Shares the Eligible Participants may receive on vesting and exercise of the Share Rights, the relevant vesting conditions, and any exercise conditions or any other terms applicable to a particular grant of Share Rights (for example the exercise period) will be set out in an invitation to an Eligible Participant.
- (d) **(Fulfilment of vested Share Rights)** The Company will fulfil vested Share Rights by issuing, allocating or causing to be transferred to the Eligible Participant the number of ordinary shares in the Company to which they are entitled.
- (e) **(Forfeiture of Share Rights):** Unless otherwise determined by the Board in its absolute discretion, Share Rights will be forfeited where:
 - i. the relevant vesting conditions are not satisfied or cannot be satisfied by the relevant date; or
 - ii. a participant has acted fraudulently, dishonestly or wilfully breached their duties to the Company (or its subsidiaries).
- (f) **(Disposal restrictions):** A Share Right cannot be transferred, disposed of or dealt with by a holder, without the prior approval of the Board or the relevant dealing is effected by force of law on death or legal incapacity of the holder.

In addition, holders must not transfer, dispose of or deal with Shares resulting from the exercise of a vested Share Right until such time as they have acquired and maintained that number of Shares equal to that holder's total base board fees (excluding committee fees) on the date of grant of the relevant Share Rights. This disposal restriction is subject to the change of control provisions below.

For the avoidance of doubt, the holder must comply with the Company's securities trading policy at all times.

- (g) **(Dividend and voting rights):** Dividends paid while a participant holds Share Rights will accrue in favour of the participant. A Share Right does not confer upon the holder an entitlement to vote.
- (h) **(Change of control):** If a change of control event occurs, which includes a takeover of the Company, the Board may in its absolute discretion determine (having regard to, amongst other factors, the period of time that has elapsed between the date of grant of the relevant Share Rights and the date of the change of control event, and the circumstances of the change of control event) the manner in which all or a specified number of outstanding Share Rights will be dealt with (including without limitation in a manner that allows the holder to benefit from the change of control event on any terms the Board deems fit including determining that some or all of a holder's unvested Share Rights are deemed to have vested).
- (i) **(Trust):** The Board may elect to use, on such terms and conditions as determined by the Board, an employee share trust for the purpose of holding shares before or after the vesting of Share Rights or delivering any Shares to the holder upon the vesting of a Share Right.

For the avoidance of doubt, the Board may do all things necessary for the establishment, administration, operation and funding of an employee share trust.

- (j) **(Amendment)** The Board has the ability to amend the terms and conditions of the Share Rights at any time, including with retrospective effect, except if the amendment materially adversely affects the rights of a participant as they existed before the date of the amendment, other than:

- i. an amendment which is primarily necessitated to ensure compliance with the Company's constitution or laws;
- ii. to correct manifest errors;
- iii. to take into consideration possible adverse taxation implications in respect of the Share Rights grants; or
- iv. to allow the implementation of an employee share trust.

To implement an amendment that materially adversely affects the rights of a participant as they existed before the date of the amendment, at least 75% of the participants affected by that amendment must first agree to that amendment in writing.

If the ASX or the ASX Listing Rules require that shareholder approval be obtained to amend the terms and conditions of Share Rights, shareholder approval will be sought at the relevant time.