

AUSTAL LIMITED
ACN 009 250 266

Notice of Annual General Meeting

and

Agenda

and

Explanatory Memorandum

Date of Meeting:	Friday 25 October 2013
Time of Meeting:	3.00 pm (WST)
Place of Meeting:	Western Australian Maritime Museum Victoria Quay 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 **Western Australian Maritime Museum, Victoria Quay, Fremantle, Western Australia** on **Friday 25 October 2013 at 3.00 pm (WST)** for the purpose of transacting the business referred to on the pages following this Notice of Annual General Meeting.

Agenda

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

To receive the consolidated financial statements of Austal Limited (the **Company**) and its subsidiaries for the year ended 30 June 2013 together with the Directors' declaration and Report in relation to that financial year and the auditors' report on those financial statements.

4. **Resolution 1 – Re-election of Mr John Rothwell AO**

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

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

5. **Resolution 2 – 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 2013 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 3 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.*

6. **Resolution 3 – Board Spill Meeting resolution**

Note: This resolution will only be put to the meeting if at least 25% of the votes on Resolution 2 above are cast against that resolution for the adoption of the Remuneration Report.

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

“That subject to and conditional on at least 25% of the votes cast on Resolution 2 being cast against the adoption of the Remuneration Report:

- (a) another General Meeting of the Company (Spill Meeting) be held within 90 days of the passing of this resolution;*
- (b) all of the directors in office when the board resolution to make the Directors Report for the financial year ended 30 June 2013 was passed excluding the Company’s Managing Director (those directors being John Rothwell AO, Dario Amara and David Singleton) cease to hold office immediately before the end of the Spill Meeting; and*
- (c) resolutions to appoint persons to those offices of director that will be so vacated immediately before the end of the Spill Meeting be put to the vote of shareholders at the Spill Meeting.”*

Voting Exclusion Statement

To the extent required by section 250R of the Corporations Act, the Company will disregard any votes cast (in any capacity) on this Resolution by or on behalf of a member of the 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.*

7. **Resolution 4 – Approval of the issue of Shares to Mr Andrew Bellamy**

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

“That for the purposes of Listing Rule 10.11 and for all other purposes, Shareholders approve the issuance of a total of 371,738 fully paid ordinary Shares to Mr Andrew Bellamy (or his permitted nominees) 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 Mr Bellamy and by any associates of Mr Bellamy.

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 150 Stirling Highway, Nedlands WA 6009 or PO Box 1156, Nedlands WA 6909, facsimile number +61 8 9389 7871 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, 23 October 2013. Accordingly, transactions registered after that time will be disregarded in determining entitlements to attend and vote at the Annual General Meeting.

**BY ORDER OF THE BOARD
AUSTAL LIMITED**

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

John Rothwell
Non Executive Chairman
26 September 2013

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 **Western Australian Maritime Museum, Victoria Quay, Fremantle, Western Australia** on **Friday 25 October 2013** at **3.00 pm (WST)**.

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

1. Resolution 1 – Re-election of Mr John Rothwell AO

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

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

2. Resolution 2 – 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 Concise Report for the year ended 30 June 2013 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 10-17 of the Concise 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. If the resolution is not passed, the Company will not be required to alter any arrangements detailed in the Remuneration Report however due to the '2 strikes' rule discussed below, it will require the Company to put Resolution 3 to the meeting.

At the 2012 Annual General Meeting, more than 50% (but less than 75%) of votes were cast in favour of this resolution. The Company therefore has a 'first strike' on the adoption of its Remuneration Report.

In recognition of the number of shareholders who voted against the resolution, the Board put in place a number of measures to address shareholder concerns regarding the remuneration of executives. These are set out in the Company's Annual Report to shareholders and include:

- reducing the number of Key Management Personnel (**KMP**) and other executives that are entitled to participate in the long-term incentive plan (**LTI Plan**);

- clearly identifying the performance measures used for the LTI Plan -
 - 70% based on return on invested capital and 30% on total shareholder return;
- deferring the issuance of performance rights under the LTI Plan;
- specifically linking short-term incentives (**STI**) to meeting performance criteria, principally EBIT and cash;
- restructuring the executive team to reduce costs; and
- freezing KMP and Director salaries in 2013 (except where a change in role occurred).

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

In accordance with section 250R of the Corporations Act, a vote on Resolution 2 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 2 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 2; 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 2 and expressly authorises the chair to exercise the proxy even though Resolution 2 is connected directly or indirectly with the remuneration of a member of the key management personnel.

3. Resolution 3 – Spill Meeting

This resolution will only be put to a vote if at least 25% of the votes cast on resolution 2 (Adoption of the Remuneration Report) are cast against that resolution and the Company is thereby issued a 'second strike'.

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

If more than 50% of Shareholders vote in favour of a Spill Resolution, the Company would be required to convene a Spill Meeting within 90 days of the Annual General Meeting. All of the directors who were in office when the 2013 Directors' Report was approved by the directors, other than the Managing Director, would cease to hold office immediately before the end of the Spill Meeting but may stand for re-election at the Spill Meeting. Those directors are:

- John Rothwell AO;
- Dario Amara; and
- David Singleton.

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

Similarly to Resolution 2 above, a vote on Resolution 3 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 3 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 3; 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 3 and expressly authorises the chair to exercise the proxy even though Resolution 3 is connected directly or indirectly with the remuneration of a member of the key management personnel.

4. Resolution 4 – Approval of the issue of Shares to Mr Andrew Bellamy

Background

Resolution 4 seeks Shareholder approval for the issue of a total of 371,738 Shares to Mr Andrew Bellamy (or his permitted nominees) in satisfaction of the Company's contractual obligation to make a Share-based payment to Mr Bellamy under his contract of employment.

Mr Bellamy was appointed to the position of Chief Executive Officer on 24 February 2011. Mr Bellamy's annual remuneration package as documented in his contract of employment includes an issue of Shares which is valued at between 30% and 50% of his base salary. The percentage is fixed by the Company's Remuneration Committee in accordance with their assessment of Mr Bellamy's performance during the preceding financial year. For the 2012/2013 year, the Remuneration Committee has set the percentage at 40%.

The value of the Share-based payment is to be paid to Mr Bellamy (or his nominees) in an equivalent value of shares in the Company. The number of Shares to be issued to Mr Bellamy (**Incentive Shares**) is calculated by dividing the value of the Share-based payment by the average weighted market price of the Company's Shares traded on ASX calculated over the 30 trading days immediately prior to the date the Board resolves to issue the Shares (subject to shareholder approval). The volume weighted average price for this period was \$0.83 resulting in the proposal to issue 371,738 Shares to Mr Bellamy.

ASX Listing Rule Requirements

ASX Listing Rule 10.11 provides, in essence, that unless an exception applies the approval of shareholders by ordinary resolution is required before a company can issue shares to a related party. A related party includes a Director, such as Mr Bellamy.

ASX Listing Rule Disclosure Requirements

ASX Listing Rule 10.13 sets out a number of matters which must be included in a notice of meeting requesting shareholder approval under ASX Listing Rule 10.11.

In accordance with ASX Listing Rule 10.13, the following information is provided to Shareholders in relation to Resolution 4:

1. the Incentive Shares will be registered in the name of Mr Andrew Bellamy or his permitted nominee. Mr Bellamy is a related party of the Company by virtue of the fact that he is a Director of the Company;
2. the number of Incentive Shares that will be issued by the Company to Mr Bellamy (and in respect of which approval is being sought) is 371,738 Shares;
3. the Incentive Shares will be issued to Mr Bellamy as soon as practicable after (and in any event within one month of) the date of shareholder approval of Resolution 4;
4. no cash amount will be payable to the Company in respect of the issue of these Incentive Shares (rather, they are being issued by the Company in satisfaction of the provisions of Mr Bellamy's contract of employment and in return for the provision of services by Mr Bellamy pursuant to that contract). The Incentive Shares will have a

deemed issue price of \$0.83; and

5. as no cash will be payable to the Company in respect of the issue of the Incentive Shares, no funds will be raised as a result of their issue.

If Shareholders approve the issue of the Incentive Shares under ASX Listing Rule 10.11, approval is not separately required under ASX Listing Rule 7.1 (which Listing Rule provides that a listed company must not issue equity securities representing more than 15% of its issued capital in any 12 month period unless the issue is approved by shareholders or fits within an exception). Accordingly, if Shareholders approve Resolution 4, the Incentive shares will not count towards the 15% capacity to issue securities for the purposes of ASX Listing Rule 7.1.