



15 October 2013

Dear Shareholder

### **Clarification on remuneration report**

I am writing to you to provide further detail on the Austal Board's position regarding executive remuneration in response to some lack of detail regarding the Company's Remuneration Report.

It is the Board's view that the retention and motivation of key executives is of critical importance to the future success of the Company and in the best interests of shareholders.

The Company's remuneration strategy is in transition from a share option-based Long Term Incentive Plan (LTIP) to a performance rights-based LTIP. The principle driver for this change is the desire to introduce specific and transparent performance metrics to long-term incentives for executives. It is anticipated that performance rights will vest following a three year measurement period. Shares issued pursuant to a performance right are then subject to a trading restriction of one year. In the first year of the revised LTIP the Board has confirmed that the key metrics are Return on Invested Capital and Total Shareholder Return. These targets will be reviewed annually for new allocations of performance rights by the Board and amended as necessary.

#### **Return on Invested Capital (ROIC)**

70 per cent of the performance rights will vest if the group average ROIC over the measurement period (3 years) is 12 per cent or greater. Less performance rights will vest if the average ROIC is below 12 per cent, on a pro rata basis, with no rights associated with the ROIC measure vesting if ROIC is 8 per cent or less.

ROIC is calculated as EBIT / Net Assets (exclusive of cash, debt, derivatives and tax accounts). For example:

- 12% or more ROIC – 70% of performance rights vest
- 10% ROIC – 35% of performance rights vest
- 8% or less ROIC – 0% of performance rights vest

### **Total Shareholder Return (TSR)**

30 per cent of the performance rights will vest if the TSR at the expiry of the performance period is 30 per cent or greater. For the purposes of this calculation, the share price at the vesting date will be the volume weighted average price of the Company's shares over the 30 trading days immediately prior to that date. The number of rights that vest will reduce, such that no rights vest if TSR is 15 per cent or less. TSR is calculated on a combination of share price growth and dividends paid. The base line for calculating TSR for FY2014 under the LTIP is a share price of A\$0.83.

### **CEO compensation**

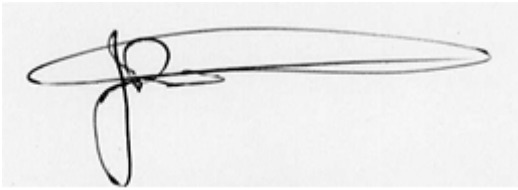
The CEO's fixed compensation is through cash (70 per cent) and shares (30 per cent). The shares are restricted from sale for two years. The intent is to ensure the CEO establishes a meaningful shareholding in the Company to align with shareholder interests.

The CEO's variable compensation component is through shares. This will transition to the performance rights LTIP in FY2014, however in the final year of the former arrangements for share-based payment, the Board is recommending the grant of shares equivalent to 10 per cent of base salary for FY2013. The minimum grant would be zero and maximum grant would be 20 per cent. The Board's recommendation reflects the Company delivering an on-target performance in FY2013, based on EBIT performance for Austal as measured against market guidance provided to the market in November 2012.

In the past twelve months the executive team has been extensively restructured and reduced, with salaries and bonuses largely frozen.

I trust that this detail further clarifies the number of key measures put in place to ensure executive remuneration is better aligned with shareholder interests.

The Board urges shareholders to consider these measures and looks forward to a positive vote in favour of the adoption of the Remuneration Report.

A handwritten signature in black ink, appearing to be 'John Rothwell', written over a light grey rectangular background.

John Rothwell

Chairman, Austal Limited