

AUSTAL LIMITED
ACN 009 250 266

Notice of Annual General Meeting

and

Agenda

and

Explanatory Memorandum

Date of Meeting:	Friday 30 November 2012
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 30 November 2012 at 3.00 pm (WST)** for the purpose of transacting the business referred to on the pages following this Notice of Annual General Meeting.

Terms and abbreviations used in this Notice and Explanatory Memorandum are defined in Schedule 1.

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 the Company and its subsidiaries for the year ended 30 June 2012 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 Poynton**

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

"That Mr John Poynton, 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 – Election of Mr David Singleton**

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

"That Mr David Singleton, who retires pursuant to Article 11.10 of the Company's Constitution, and being eligible, offers himself for election, be elected as a Director."

6. **Resolution 3 - 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 2012 be adopted."

Note: Although section 250R(3) of the 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.*

7. **Resolution 4 – Long Term Incentive Plan**

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

“That approval is given for all purposes (including Listing Rule 7.2 (exception 9)) for:

- (a) *the establishment of a plan, to be called Austal Limited Long Term Incentive Plan (“Plan”) for the provision of incentives to certain executives (including directors) (Executives) of Austal Limited and its subsidiaries;*
- (b) *the issue of rights to acquire, or interests in, ordinary fully paid shares in Austal Limited (“Shares”) under the Plan, to Executives of the Company and its subsidiaries, including Executives in the United States of America, who are invited by the Board of the Company to participate in the Plan;*
- (c) *the issue and/or transfer of Shares to Executives under the Plan, or the payment of a cash equivalent to eligible Executives in the USA if required; and*
- (d) *the provision of benefits to Executives under the Plan,*

in accordance with the Austal Limited Long Term Incentive Plan Rules, providing for rules in respect of Australian Executives and United States Executives, initialled by the Chairman for the purposes of identification and described in the attached 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 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 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 165,556 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 My 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.*

9. Resolution 6 – Approval of the issue of Performance Rights to Mr Andrew Bellamy

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 287,313 Performance Rights under the Austal Limited Long Term Incentive Plan to Mr Andrew Bellamy 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 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.*

10. Resolution 7 – Approval of the issue of Performance Rights to Mr Michael Atkinson

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 102,728 Performance Rights under the Austal Limited Long Term Incentive Plan to Mr Michael Atkinson 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 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.*

11. Resolution 8 – Approval of a 10% Placement Facility under Listing Rule 7.1A

To consider and, if thought fit, to pass the following as a **special resolution**:

“That pursuant to and in accordance with Listing Rule 7.1A and for all other purposes, Shareholders approve the issue of (or entry into agreements to issue) Equity Securities representing up to 10% of the issued capital of the Company (calculated in accordance with the formula prescribed in Listing Rule 7.1A.2) on the terms and conditions set out in the Explanatory Memorandum.”

Voting Exclusion Statement

In accordance with Listing Rule 14.11, the Company will disregard any votes cast on this Resolution by a person who may participate in the 10% Placement Facility (as defined in the Explanatory Memorandum) and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of shares, if this Resolution is passed, and by any associates of such persons.

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 4.00 pm (WST) (being 7.00pm Sydney time) on Wednesday, 28 November 2012. 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, consisting of a large, stylized loop followed by a horizontal line and a vertical stroke.

John Rothwell
Non Executive Chairman
23 October 2012

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 30 November 2012** at **3.00 pm (WST)**.

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

If you appoint the Chairman as your proxy, or the Chairman is appointed as your proxy by default, new rules apply in respect of Resolution 3. Your attention is drawn to the section in the proxy form entitled "Important for Resolution 3 - the Chairman is authorised to exercise undirected proxies on remuneration related resolutions."

1. Resolution 1 – Re-election of Director

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

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

2. Resolution 2 – Re-election of David Singleton

Mr David Singleton is required to retire under the Director appointment provisions of Article 11.10 of the Company's Constitution after filling a casual vacancy since the date of the last annual general meeting. Mr David Singleton, being eligible, has offered himself for re-election as a Director.

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

3. Resolution 3 – 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 2012 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 report is set out on pages 8 to 12 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. 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, if at least 25% 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 2013 Annual General Meeting, the Company will be required to put to Shareholders a resolution at the 2013 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 2013 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. 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 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 – LTI

Reasons for seeking Shareholder Approval

ASX Listing Rules 7.1 and 7.1A prohibit the Company issuing Equity Securities which, in aggregate, exceed 15% and an additional 10%, respectively, of the fully paid ordinary share capital of the Company in any 12-month period, unless the Company obtains shareholder approval for the issue (and in the case of Listing Rule 7.1A, the meeting of other threshold requirements) or an exception applies.

Exception 9(b) in ASX Listing Rule 7.2 provides that Listing Rules 7.1 and 7.1A do not apply to the issue of Equity Securities by the Company under an employee incentive scheme if the scheme has been approved by shareholders within 3 years before the date of issue.

The Company is seeking approval of the Austal Limited Long Term Incentive Plan for the purposes of Listing Rule 7.2 exception 9(b) so that the issue of shares under the plan will not reduce the Company's 15% capacity under Listing Rule 7.1 and/or the Company's 10% additional capacity under Listing Rule 7.1A where relevant.

Note that as the Plan is only now being adopted, no rights or securities have yet been issued under it.

Summary of rules of the Austal Long Term Incentive Plan

Overview

The Board of Directors of the Company (“**Board**”) has determined to establish a long term incentive plan called the Austal Long Term Incentive Plan (“**Plan**”) for executives of the Group who are accountable for and able, or potentially able, to directly impact results, including within business units or through technical or managerial skills or high performance, including executive directors of the Company and other employees

determined by the Board ("Executives"). The Company's existing executive option scheme will be replaced by the Plan.

The Plan has been developed with assistance from independent employee share plan design advisors. The Plan consists of the Australian Plan applicable to Australian Executives and the US Plan applicable to US Executives. In this summary, any reference to "Plan" is a reference to both of these Plans.

Under the Plan, Austal may offer eligible Executives rights to receive ordinary fully paid shares ("Shares") by way of issue subject to vesting on satisfaction of performance hurdles ("Performance Rights"). It is expected that Shares will ordinarily be issued for no monetary amount. Shares will be received on or soon after vesting of Performance Rights (subject to satisfaction of offer conditions, including performance, conditions) and can only be transferred in accordance with the Plan Rules. Under the US Plan the Board may determine in its absolute discretion that instead of allocating Shares it will make a cash payment to the Plan participant equal to the market value of the relevant Shares on the relevant vesting date, less any applicable tax.

The Board believes that the Plan will optimize the incentive to Executives to maximize returns to shareholders over the long term by aligning the interests of Executives and shareholders and matching rewards under the Plan with the long term performance of Austal as well as assisting the attraction and retention of Executives.

A summary of the rules of the Plan ("Plan Rules") is set out below. A grant of Performance Rights under the Plan is subject both to the Plan Rules and the terms of the specific grant. The Plan will be administered by the Board in accordance with the Plan Rules and the terms and conditions of the specific grants to Executives under the Plan.

Performance Criteria

The Board has discretion in setting Performance Criteria and initially there will be two elements, Company performance (initially to comprise 30%) and internal performance (initially 70%).

Company performance

The Company performance measures applicable to the vesting of Performance Rights will initially be a comparison of the Company's shareholder value increase measured by Total Shareholder Return (TSR).

For Performance Rights issued in the 2012-2013 year 30% of Performance Rights will vest in relation to TSR performance as follows:

TSR over 3 years	Portion of granted Performance Rights subject to TSR that vest
25% and over	100%
21 - 24.99%	90%
17 - 20.99%	80%
13 - 16.99%	70%
9 - 12.99%	60%
5 - 8.99%	50%

Less than 5%	0%
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As the performance criteria are set out in the offer of grants to Executives, these measures may be adjusted by the Board from time to time.

Internal performance measures

For Performance Rights issued in the 2012-2013 year 70% of the LTI award will vest subject to the achievement of an internal performance measure. The internal performance measure will be determined annually by the Board and may be based on overall Company performance or individual business unit performance, depending on the role of the Plan participant.

The following table outlines the suggested vesting schedule for internal measures.

Measure	Proportion of salary of granted Performance Rights subject to internal measure that vest
Threshold	50%
Between threshold and stretch	Pro-rata vesting between 50% and 100%
Stretch	100%

The Board retains absolute discretion to determine vesting for the internal performance measure, based on specific business and performance context.

Number of Performance Rights

The Board will not issue an invitation under the Australian Plan if the total number of Shares which may potentially be issued in respect of the Performance Rights offered to Australian Executives when aggregated with:

- (a) the number of Shares which would be issued were all offers of Performance Rights or options to acquire unissued Shares (being offers made pursuant to an employee share or option scheme or other scheme extended only to employees or directors of the Group and its associated bodies corporate) accepted, converted or exercised (as relevant); and
- (b) the number of Shares issued during the previous 5 years pursuant to any employee share option or other scheme extended only to employees or directors of the Group and its associated bodies corporate

but disregarding any offer made, or option acquired or Share issued by way of or as a result of:

- (c) an offer to a person situated at the time of receipt of the offer, outside Australia (ie under the US Plan); and

(d) an offer that did not need disclosure to investors because of Section 708 of the Corporations Act 2001,

would exceed 5% of the total number of issued Shares at the date on which the Board proposes to issue the invitation.

Performance Rights cannot be granted under the Australian Plan if the total number of outstanding Performance Rights, options and conditional entitlements to Shares the subject of employee incentive schemes exceeds 10% of the Company's total number of Shares on issue from time to time.

Performance rights cannot be issued under the US Plan if the total number of outstanding options and the total number of conditional entitlements to Shares that are the subject of employee incentive schemes (as defined in the Listing Rules) exceeds 5% of the Company's total number of Shares on issue at the time of the offer.

Performance Rights and Shares cannot be granted or allocated to an Australian Executive under the Plan if the participant would or is likely to hold (as a result of the grant of the Performance Rights) a legal or beneficial interest in more than 5% of the Shares or be in a position to cast or control the casting of more than 5% of the maximum number of votes able to be cast at a general meeting of the Company.

There is a 5% cap on vesting of Performance Rights and allocation of Shares under the US Plan.

Note that if the Company reconstructs its capital in any way, the number of Performance Rights to which a Plan participant is entitled or payment to be made in respect of a Share (if any) or both, will be adjusted in the way specified by the ASX Listing Rules from time to time in respect of options.

A summary of the key features of the Plan (including differences between the Australian Plan and the US plan) is set out below.

Invitation to participate – Selected Executives will be invited to apply for up to a specified number of Performance Rights calculated by reference to a percentage of the Fixed Remuneration ("FR") of the relevant Executive determined by the Board each year and set out in a letter of offer to the Executive. The percent for the 2012-13 year for the CEO is likely to be 50%, direct reports and all other participants 20% - 35%. The percentage may change from year to year at the discretion of the Board.

Plan interests Non-transferable – Performance Rights granted to an Executive are not transferable. Shares issued on vesting of Performance Rights must also not be sold or transferred except in accordance with the Plan Rules (see further below).

Price – Unless the Board determines otherwise, Performance Rights will be granted and Shares will be issued upon vesting for no consideration.

Performance Hurdles –The vesting of Performance Rights is to be conditional on the achievement of performance hurdles set out in the specific grant.

Vesting of Performance Rights – Performance will be assessed over the period from the Effective Date as stated in the letter of offer to the end of the Performance Period specified in the letter of offer of Performance Rights (normally three years). The Board may determine that no, or a lesser vesting occur.

Early Vesting – Early vesting of the Performance Rights may occur at the discretion of the Board, if the Executive ceases employment with the Group in circumstances of death, total and permanent disablement, retirement, parental leave, redundancy or where otherwise permitted by the Board in its absolute discretion ("Qualifying Reason"). The same early

vesting discretions apply if a Plan participant has a change in role, a new appointment within the Group, a promotion or career direction change during a Performance Period.

Early vesting of Performance Rights may also occur on a change of control after a takeover bid (50% or more of the Shares) or scheme of arrangement or similar event (“Capital Event”), subject to Board discretion. The number of Performance Rights which vest will be at the Board’s discretion.

Cessation of employment except for a Qualifying Reason - Where a Plan participant ceases to be employed by the Group prior to the completion of a performance period other than because of a Qualifying Reason:

- (a) unvested Performance Rights in relation to that performance period will lapse; and
- (b) any Performance Rights relating to the performance period held by the Participant which have vested but not converted to Shares (for example if a price is required to be paid but has not been paid) will lapse on the earlier of their expiry date or two months after the date of cessation of employment,

notwithstanding that the Performance Period has not expired.

Forfeiture - Unless otherwise determined by the Board in its absolute discretion a Plan participant will forfeit some or all of his or her Performance Rights if:

- (a) the Plan participant is dismissed for cause; or
- (b) in the Board’s reasonable opinion, the Plan participant acts fraudulently or dishonestly, is in serious breach of duty (under a contract or otherwise) to the Group or commits any act of harassment or discrimination; or
- (c) in the Board’s reasonable opinion has brought the Group into serious disrepute;
- (d) in the Board’s reasonable opinion, the financial statements upon which Performance Criteria have been based or assessed are materially misleading; or
- (e) the Plan participant acts contrary to the prohibitions on hedging unvested remuneration set out in Part 2D.7 of the Corporations Act,

Disposal restrictions on Shares - Shares issued on vesting of Performance Rights will be registered in the name of the Plan participant and may be subject to a holding lock.

Amendment of Plan - Both the Australian Plan and the US Plan can be amended by the Board.

An amendment which would prejudicially affect entitlements which have already accrued to participants in the Australian Plan or the US Plan must be approved by 75% of the relevant Plan participants.

The US Plan may be amended to the extent the Board considers advisable to ensure Performance Rights granted to US taxpayers either qualify for an exemption or comply with section 409A of the US Internal Revenue Code.

The Company may terminate the Plan by written instrument provided that such act does not prejudice the rights of Plan participants or Shares held by or on behalf of them.

5. Resolution 5 – Approval of the issue of Shares to Mr Andrew Bellamy

Background

Resolution 5 seeks Shareholder approval for the issue of a total of 156,983 Shares to Mr Andrew Bellamy (or his permitted nominees) in satisfaction of the Company's contractual obligation to pay Mr Bellamy a Long Term Incentive ("LTI") under his contract of employment.

Mr Bellamy was appointed to the position of Chief Executive Officer on 24 February 2011. Mr Bellamy's remuneration package as documented in his contract of employment includes an LTI which is valued at between 30% and 50% of his base salary of \$745,000. 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 2011/2012 year, the Remuneration Committee has set the LTI percentage at 30%.

The value of the LTI is to be paid to Mr Bellamy (or his nominees) in an equivalent value of shares in the Company. This number of shares to be issued to Mr Bellamy ("the LTI shares") is calculated by dividing the quantum of the LTI payment by the average weighted market price of the Company's Shares traded on ASX calculated over the 20 trading days immediately after the announcement of the Company's financial results for the 2011/2012 year. The volume weighted average price for this period was \$1.35 resulting in the proposal to issue 165,556 shares to Mr Bellamy.

The Company and Mr Bellamy have agreed that Mr Bellamy must retain the LTI shares for a minimum period of 18 months from the date of issue.

Listing Rule Requirements

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.

Listing Rule Disclosure Requirements

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

In accordance with Listing Rule 10.13, the following information is provided to Shareholders in relation to Resolution 5:

- (a) the LTI 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;
- (b) the number of Shares that will be issued by the Company to Mr Bellamy (and in respect of which approval is being sought) is 165,556 Shares;
- (c) the LTI 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 5;
- (d) no cash amount will be payable to the Company in respect of the issue of these LTI shares (rather, they are being issued by the Company in satisfaction of the LTI provisions of Mr Bellamy's contract of employment and in return for the provision of services by Mr Bellamy pursuant to that contract). The LTI shares will have a deemed issue price of \$1.35 (being the average weighted market price of the Company's Shares traded on ASX calculated over the 20 trading days immediately after the announcement of the Company's financial results for the 2011/2012 year); and

- (e) as no cash will be payable to the Company in respect of the issue of the LTI shares, no funds will be raised as a result of their issue.

If Shareholders approve the issue of the LTI shares under Listing Rule 10.11, approval is not separately required under 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 6, the LTI shares will not count towards the 15% capacity to issue securities for the purposes of Listing Rule 7.1.

6. Resolution 6 – Approval of the issue of Performance Rights to Andrew Bellamy

Resolution 6 seeks Shareholder approval for the grant of 287,313 Performance Rights to Mr Andrew Bellamy (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 is described at section 5 (above) of this Explanatory Memorandum.

The Performance Rights will be subject to performance hurdles (including as discussed at section 5 above), and the grant of Performance Rights to Mr Bellamy is intended to act as a strong incentive for Mr Bellamy to align with the Company's strategic plan focussing on seeking improved performance, the growth of the Company and better returns for Shareholders.

As described above, the Plan is replacing the Company's existing executive option scheme.

Listing Rule Requirements

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 Bellamy to participate in the Plan and receive Performance Rights under the Plan over the next three years, the Company must obtain Shareholder approval pursuant to Listing Rule 10.14.

Listing Rule Disclosure Requirements

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

In accordance with Listing Rule 10.15A, the following information is provided to Shareholders in relation to Resolution 6:

- (a) The name of the person referred to in LR 10.14 who is entitled (pursuant to Resolution 6) to participate in the Plan and receive Performance Rights is Mr Andrew Bellamy. Mr Bellamy is an Executive Director of the Company. Mr Michael Atkinson (another Executive Director of the Company) is also a person referred to in Listing Rule 10.14 who is entitled to participate in the Plan and receive Performance Rights (with the approval of the issue of Performance Rights to Mr Atkinson being the subject matter of Resolution 7 below). No other persons referred to in Listing Rule 10.14 are presently entitled to participate in the Plan (and any who become entitled to participate will not do so until after any Shareholder approval required under Listing Rule 10.14 (or otherwise under chapter 10 of the Listing Rules) is obtained).

- (b) The maximum number of Performance Rights that may (in aggregate) be granted to Messrs Bellamy and Atkinson (being the participants in the Plan requiring Listing Rule 10.14 approval) is (assuming their salaries remain unchanged and the Board does not exercise its discretion to award additional Performance Rights):
- (i) during the next 3 years without further Shareholder approval: 1,170,123 Performance Rights; and
 - (ii) during the financial year to ending 30 June 2013, 390,041 Performance Rights.

The exact number of Performance Rights that may be granted to the Executive Directors cannot be calculated at the date of this notice of meeting as it depends upon the percentage of fixed remuneration (for each Plan participant) determined by the Board as being available (each year, in respect of each award under the Plan) and the future average closing share price over the one month prior to the offer date (under the Plan). Each Performance Right will also be subject to the satisfaction of performance hurdles (or be otherwise capable of vesting in accordance with its terms). Each Performance Right that vests will result in an issue of one fully paid Share.

- (c) No consideration is payable for the grant of Performance Rights under the 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 Plan. The Plan (and Performance Rights issued under it) form part of the Company's remuneration and incentive package for Executives.
- (d) As the Plan is newly adopted, no Performance Rights (or other securities) have yet been issued under it.
- (e) No loans have or will be made by the Company in connection with the acquisition of Performance Rights.
- (f) Performance Rights will not be granted under the Plan to either Mr Bellamy or Mr Atkinson at any stage after 3 years from the date of the Annual General Meeting without obtaining any Shareholders approval required under the Listing Rules.
- (g) Details of Messrs Bellamy's and Atkinson's holdings of interests in the Company are set out the Company's annual report. Details of the Performance Rights granted under the Plan will be published in each annual report of the Company relating to the period in which the Performance Rights have been granted (with a statement that approval for the grant of Performance Rights to Messrs Bellamy and Atkinson was obtained under Listing Rule 10.14.

Subject to the passage of Resolution 4, any Performance Rights issued under the 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 Listing Rule 7.1.

7. Resolution 7 – Approval of the issue of Performance Rights to Michael Atkinson

Resolution 7 seeks Shareholder approval for the grant of 102,728 Performance Rights to Mr Michael Atkinson (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 is described at section 5 (above) of this Explanatory Memorandum.

The Performance Rights will be subject to performance hurdles (including as discussed at section 5 above), and the grant of Performance Rights to Mr Atkinson is intended to act as a strong incentive for Mr Atkinson to align with the Company's strategic plan focussing on seeking improved performance, the growth of the Company and better returns for Shareholders.

Further information (including the information required under the Listing Rules) in relation to Resolution 7 is discussed at section 6 above, and Shareholders are referred to that section of the Information Memorandum.

8. Resolution 8 – Approval of a 10% Placement Facility under Listing Rule 7.1A

Listing Rule 7.1A enables eligible entities to issue (or agree to issue) Equity Securities representing up to 10% of their issued share capital through placements for up to 12 months after their annual general meetings ("**10% Placement Facility**"). A 10% Placement Facility is in addition to an eligible entity's 15% placement capacity under Listing Rule 7.1.

An eligible entity for the purposes of Listing Rule 7.1A is an entity that is not included in the S&P/ASX 300 Index and has a market capitalisation of \$300 million or less. The Company is an eligible entity. While the Company does not have plans to avail itself of this facility, it is considered prudent to seek shareholder approval of the facility in the event circumstances warrant its use.

The Company is now seeking Shareholder approval by way of a special resolution to have the ability to issue (or agree to issue) Equity Securities under a 10% Placement Facility.

The exact number of Equity Securities to be issued under the 10% Placement Facility will be determined in accordance with the formula prescribed in Listing Rule 7.1A.2 (see paragraph (c) (Formula for calculating 10% Placement Facility) below).

Description of Listing Rule 7.1A

(a) Shareholder approval

The ability to issue Equity Securities under the 10% Placement Facility is subject to Shareholder approval by way of a special resolution at an annual general meeting (which requires the approval of 75% of the votes cast by Shareholders present and eligible to vote on the Resolution).

(b) Equity Securities

Any Equity Securities issued under the 10% Placement Facility must be in the same class as an existing quoted class of Equity Securities of the Company.

The Company, as at the date of this Notice, has on issue only one class of quoted Equity Securities, being fully paid ordinary shares (the Company also has options on issue, however, these are unlisted).

(c) Formula for calculating 10% Placement Facility

Listing Rule 7.1A.2 provides that eligible entities which have obtained shareholder approval at an annual general meeting may issue or agree to issue, for up to 12 months after the date of the annual general meeting, a number of Equity Securities calculated in accordance with the following formula:

(A x D) - E

where:

- A** is the number of fully paid ordinary securities on issue 12 months before the date of issue or agreement:
- (i) plus the number of fully paid ordinary securities issued in the 12 months under an exception in Listing Rule 7.2;
 - (ii) plus the number of partly paid ordinary securities that became fully paid in the 12 months;
 - (iii) plus the number of fully paid ordinary securities issued in the 12 months with approval of holders of ordinary securities under Listing Rules 7.1 and 7.4. Note this does not include an issue of fully paid ordinary securities under the entity's 15% placement capacity without Shareholder approval pursuant to Listing Rule 7.1 or ratification pursuant to Listing Rule 7.4;
 - (iv) less the number of fully paid ordinary securities cancelled in the 12 months.

Note that "A" has the same meaning in Listing Rule 7.1 when calculating an entity's 15% placement capacity.

D is 10%.

E is the number of Equity Securities issued or agreed to be issued under Listing Rule 7.1A.2 in the 12 months before the date of the issue or agreement to issue that are not issued with the approval of holders of ordinary securities under Listing Rules 7.1 or 7.4.

(d) Listing Rule 7.1 and Listing Rule 7.

As mentioned above, the ability of an entity to issue Equity Securities under Listing Rule 7.1A is in addition to the entity's 15% placement capacity under Listing Rule 7.1.

At the date of this Notice, the Company has on issue 190,674,573 shares and therefore has capacity to issue:

- (i) 28,601,186 Equity Securities under Listing Rule 7.1; and
- (ii) subject to Shareholder approval being obtained under Resolution 8 at the meeting, 19,067,457 Shares under Listing Rule 7.1A.

The actual number of Equity Securities that the Company will have capacity to issue under Listing Rule 7.1A will be calculated at the date of issue (or entry into an agreement to issue) of the Equity Securities in accordance with the formula prescribed in Listing Rule 7.1A.2 (refer to paragraph (c) (Formula for calculating 10% Placement Facility) above).

(e) Minimum issue price

The issue price of Equity Securities issued under Listing Rule 7.1A must be not less than 75% of the volume weighted average price ("**VWAP**") of Equity Securities in the same class calculated over the 15 trading days immediately before:

- (i) the date on which the price at which the Equity Securities are to be issued is agreed; or
- (ii) if the Equity Securities are not issued within 5 trading days of the date in paragraph (i), the date on which the Equity Securities are issued.

(f) 10% Placement Period

Shareholder approval of the 10% Placement Facility under Listing Rule 7.1A is valid from the date of the annual general meeting at which the approval is obtained to the earlier to occur of:

- (i) the date that is 12 months after the date of the annual general meeting at which the approval is obtained; or
- (ii) the date of the approval by Shareholders of a transaction under Listing Rules 11.1.2 (a significant change to the nature or scale of activities) or 11.2 (disposal of main undertaking),

(the “**10% Placement Period**”).

Specific information required by Listing Rule 7.3A

In accordance with Listing Rule 7.3A, information is provided in relation to the 10% Placement Facility as follows:

- (a) The Equity Securities will be issued at an issue price of not less than the amount described in paragraph (e) (Minimum issue price) above.
- (b) If Resolution 8 is approved by Shareholders and the Company issues Equity Securities under the 10% Placement Facility, the existing Shareholders’ economic interest may be diluted if the Equity Securities are issued at a discount. Further, the existing Shareholders’ voting power in the Company will be diluted by up to 9.1%. There is a risk that:
 - (i) the market price for the Company’s Equity Securities may be significantly lower on the date of the issue of the Equity Securities than on the date of the approval at the annual general meeting; and
 - (ii) the Equity Securities may be issued at a price that is at a discount to the market price for the Company’s Equity Securities on the issue date,

which may have an effect on the amount of funds raised by the issue of the Equity Securities and also on the Company’s share price post issue of the Equity Securities.

The below table shows the dilution of existing Shareholders on the basis of the current share price and the current number of ordinary securities for variable “A” calculated in accordance with the formula in Listing Rule 7.1A.2 as at the date of this Notice (see paragraph (c) (Formula for calculating 10% Placement Facility) above).

The table also shows:

- (i) two examples where variable “A” has increased, by 50% and 100%. Variable “A” is based on the number of ordinary securities the Company has on issue. The number of ordinary securities on issue may increase as a result of issues of ordinary securities that do not require Shareholder approval (for example, a pro-rata entitlement offer or scrip issued under a takeover offer) or future specific placements under Listing Rule 7.1 that are approved by Shareholders at future Shareholder meetings; and
- (ii) two examples where the issue price of ordinary securities has changed – in one example it has decreased by 50% and in another it has increased by 50% against the current share price (which, for the purposes of this table, is \$1.32 as at 17 October 2012).

Variable ‘A’ in Listing Rule 7.1A.2		Dilution		
		Assuming 50% decrease in issue price	Issue price	50% increase in issue price
Current Variable A 190,674,573 Shares on issue	Number of shares that could be issued under 10% Placement Facility	19,067,457 Shares	19,067,457 Shares	19,067,457 Shares
	Funds that could be raised	\$12,584,521.62	\$25,169,043.24	\$37,753,564.86
50% increase in current Variable A Assuming 286,011,860 Shares on issue	Number of shares that could be issued under 10% Placement Facility	286,011,860 Shares	286,011,860 Shares	286,011,860 Shares
	Funds that could be raised	\$18,876,782.76	\$37,753,565.52	\$56,630,348.28
100% increase in current Variable A Assuming 381,349,146 Shares on issue	Number of shares that could be issued under 10% Placement Facility	381,349,146 Shares	381,349,146 Shares	381,349,146 Shares
	Funds that could be raised	\$25,169,043.63	\$50,338,087.27	\$75,507,130.90

The table has been prepared on the following assumptions:

- (i) The Company issues the maximum number of Equity Securities available under the 10% Placement Facility.
- (ii) In each case, an issue of the maximum number of shares under the 10% Placement Facility would dilute the Shareholders as at the date immediately prior to the issue by up to 9.1%. For example, based on the current number of shares, existing Shareholders would have 190,674,573 votes out of a total post-issue number of shares of 209,742,030 shares, representing 90.9% of the post-issue total number of shares (or a dilution of 9.1%).
- (iii) The table does not show the economic dilution that may be caused to a particular Shareholder’s shareholding by reason of placements under the 10% Placement Facility.

- (iv) The table shows only the effect of issues of Equity Securities under Listing Rule 7.1A, not under the 15% placement capacity under Listing Rule 7.1.
 - (v) The issue of Equity Securities under the 10% Placement Facility consists only of shares (since this is the only class of listed securities the Company has on issue at the date of this Notice).
 - (vi) The base issue price is assumed to be \$1.32, being the closing price of the shares on ASX on 17 October 2012.
 - (vii) The issue price (\$1.32) is assumed to be the current share price as at 17 October 2012 (rather than being based on a 15 trading day VWAP).
 - (viii) No options are exercised or performance rights vest before the issue of Equity Securities under the 10% Placement Facility.
- (c) The Company will only issue and allot the Equity Securities during the 10% Placement Period. The approval under Resolution 8 for the issue of Equity Securities will cease to be valid in the event that Shareholders approve a transaction under Listing Rule 11.1.2 (a significant change to the nature or scale of activities) or Listing Rule 11.2 (disposal of main undertaking).
- (d) The Company may seek to issue Equity Securities under the 10% Placement Facility for the following purposes:
- (i) non-cash consideration for the acquisition of new assets and investments. In such circumstances the Company will provide a valuation of the non-cash consideration as required by Listing Rule 7.1A.3; or
 - (ii) cash consideration. In such circumstances, the Company intends to use the funds raised towards acquisitions of new assets or investments (including expenses associated with such acquisitions or repayment of debt drawn down to fund such acquisitions), for capital expenditure on the Company's current assets and/or for general working capital.

The Company will comply with its disclosure obligations under Listing Rules 7.1A(4) and 3.10.5A upon issue of any Equity Securities under the 10% Placement Facility.

- (e) The Company's allocation policy for issues of new shares under the 10% Placement Facility is dependent on the prevailing market conditions at the time of any proposed issue. The identity of the allottees of Equity Securities will be determined on a case-by-case basis having regard to, without limitation, the following factors:
- (i) the methods of raising funds that are available to the Company, including but not limited to, rights issues or other issues in which existing Shareholders can participate and other forms of equity and debt financing;
 - (ii) the effect of the issue of the Equity Securities on the control of the Company;
 - (iii) the financial situation and solvency of the Company; and
 - (iv) advice from corporate, financial and broking advisers (if applicable).
- (f) The allottees under the 10% Placement Facility have not been determined as at the date of this Notice but may include existing substantial Shareholders and/or new Shareholders who are not related parties or associates of a related party of the Company.
- (g) The Company has not previously obtained Shareholder approval under Listing Rule 7.1A.
- (h) A voting exclusion statement is included in the Notice.

Schedule 1 - Definitions

10% Placement Facility has the meaning given to that term in section 8 of the Explanatory Memorandum.

10% Placement Period has the meaning given to that term in section 8 of the Explanatory Memorandum.

Company means Austal Limited ACN 009 250 266.

Corporations Act means the Corporations Act 2001 (Cwth).

Equity Securities has the same meaning as in the Listing Rules.

Executive has the meaning given to that term in section 4 of the Explanatory Memorandum.

Explanatory Memorandum means this explanatory memorandum to the Notice.

Listing Rules means the Listing Rules of the Australian Securities Exchange.

Notice means this notice of meeting.

Performance Right has the meaning given to that term in section 4 of the Explanatory Memorandum.

Plan has the meaning given to that term in section 4 of the Explanatory Memorandum.

Plan Rules has the meaning given to that term in section 4 of the Explanatory Memorandum.

Proxy Form means the proxy form attached to or accompanying this Notice.

Share means an ordinary share in the capital of the Company.

Shareholder means a shareholder of the Company.

VWAP has the meaning given to that term in section 8 of the Explanatory Memorandum.