

AUSTAL LIMITED
ACN 009 250 266

NOTICE OF ANNUAL GENERAL MEETING

AND

AGENDA

AND

EXPLANATORY MEMORANDUM

Date of Meeting:	Friday 23 October 2009
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 23 October 2009** 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 Managing Director & CEO - Mr Bob Browning**

3. **Directors' report and financial statements**

To receive the consolidated financial statements of the Company and its subsidiaries for the year ended 30 June 2009 together with the Directors' declaration and report in relation to that financial year and the auditors' report on those financial statements.

4. **Resolution 1 - Election of Mr John Poynton**

To consider and, if thought fit, to pass, with or without amendment, 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 Christopher Norman**

To consider and, if thought fit, to pass, with or without amendment, the following as an **ordinary resolution**:

"That Mr Christopher Norman 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."

6. **Resolution 3 - Remuneration Report**

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

"To approve the Remuneration Report for the year ended 30 June 2009."

7. **Resolution 4 - Approval of Option Plan**

To consider and, if thought fit, to pass, with or without amendment, the following as an **ordinary resolution**:

"That for the purposes of Listing Rule 7.2 (Exception 9) and for all other purposes, Shareholders approve the Company's Long Term Incentive Plan ("Option Plan") on the terms and conditions set out in the Explanatory Memorandum accompanying the Notice of Annual General Meeting and the issue of Options under the Option Plan to persons eligible to participate in the Option Plan as an exception to Listing Rule 7.1 "

In accordance with Listing Rule 14.11, the Company will disregard any votes cast on this Resolution by any director of the company (except one who is ineligible to participate in any employee incentive scheme in relation to the company) and any associate of any such person. However the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or it is cast by the person chairing the meeting as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form to vote as the proxy decides.

**BY ORDER OF THE BOARD
AUSTAL LIMITED**

A handwritten signature in black ink, appearing to be 'John Rothwell', with a long horizontal stroke extending to the right.

John Rothwell
Non Executive Chairman
21 September 2009

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 23 October 2009** at **3.00 pm (WST)**.

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

Terms used in the Notice of Annual General Meeting and the Explanatory Memorandum, unless the context otherwise requires, have the same meaning given to them in the Glossary of Terms.

1. RESOLUTIONS 1 AND 2 – RE-ELECTION OF DIRECTORS

Mr John Poynton and Mr Christopher Norman are required to retire under the Director rotation provisions of Article 11.3 of the Company's Constitution. Mr John Poynton and Mr Christopher Norman, being eligible, have offered themselves for re-election as Directors.

The remaining Directors recommend to Shareholders that Mr John Poynton and Mr Christopher Norman be re-elected.

2. RESOLUTION 3 – REMUNERATION REPORT

The Concise Report for the year ended 30 June 2009 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 13 of the Concise Report and can also be found on the Company website at www.austal.com.

Pursuant to section 250R(3) of the Corporations Act 2001, the shareholder vote is advisory only and 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.

3. RESOLUTION 4 – APPROVAL OF OPTION PLAN

3.1 BACKGROUND

The Board has established the Long Term Incentive Plan to replace the Employee Share Option Plan. The major changes to the previous plan are:

- No \$0.01 option fee is payable with acceptance of offer.
- The vesting of Options is based on the Total Shareholder Return over the 3 year period achieving 25% or more, instead of the percentage change in the Small Industrials Accumulation Index. The percentage of Options that vest will be reduced according to a vesting scale if the Total Shareholder Return is less than 25%.

The objectives of the Option Plan are to:

- **Attract and Retain** exceptional employees (“**key employees**”) that have the capacity to significantly impact the growth and profitability of the Company;
- **Align** key employee behaviour toward the growth and profitability objectives of the Company; and
- **Reward** key employees for sustained contributions to business success.

If Resolution 4 is passed it will enable the Company to issue Options to Eligible Employees and to issue Shares to those Eligible Employees if they choose to exercise their Options, without these Options being counted towards the 15% limit in Listing Rule 7.1.

The Board considers that the Option Plan will permit the Board to be more flexible in attracting and retaining key employees of the Company.

Note - whilst Executive Directors are eligible to participate in the Option Plan, it is not intended to make an offer of Options to the Executive Directors. If the Company intends to make an offer to Executive Directors it would require shareholder approval under Listing Rule 10.11.

3.2 LISTING RULE REQUIREMENTS

Listing Rule 7.1 provides, in summary, that a listed company may not issue equity securities in any 12 month period which exceeds 15% of the number of issued securities of the company held at the beginning of the 12 month period, except with the prior approval of Shareholders of the company in general meeting of the precise terms and conditions of the proposed issue.

One of the exceptions to Listing Rule 7.1 is Listing Rule 7.2 (Exception 9(b)) which provides that Listing Rule 7.1 does not apply to an issue under an employee incentive scheme if, within 3 years before the date of issue, shareholders have approved the issue under an employee incentive scheme as an exception to Listing Rule 7.1.

Shareholder approval for this purpose is sought to enable the Company to grant Options under the Option Plan from time to time without experiencing unnecessary delays and incurring significant costs when obtaining Shareholder approval each time the Company wishes to issue securities which exceed the 15% limit and which do not otherwise fall within one of the other nominated Listing Rule exceptions.

Please note that the Company will not grant Options under the Option Plan to Australian employees in excess of 5% of the number of issued securities of the Company in accordance with ASIC requirements and the terms of the Option Plan.

It is proposed that 3,045,000 options will be offered under the Option Plan prior to the Annual General Meeting with an Offer Period determined to commence following the Annual General Meeting. The date of the offer will set the exercise price of the Options.

A summary of the terms and conditions of the Options is set out in Annexure A of this Explanatory Memorandum.

A summary of the Option Plan is set out in Annexure B of this Explanatory Memorandum.

A copy of the Option Plan will be sent free of charge to any Shareholder on request.

3.3 VOTING EXCLUSION STATEMENT

In accordance with Listing Rule 14.11, the Company will disregard any votes cast on this Resolution by any director of the company (except one who is ineligible to participate in any employee incentive scheme in relation to the company) and any associate of any such person. However the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or it is cast by the person chairing the meeting as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form to vote as the proxy decides.

GLOSSARY OF TERMS

The following terms and abbreviations used in the Notice of Annual General Meeting and this Explanatory Memorandum have the following meanings:

"Annual General Meeting"	means the Annual General Meeting of Shareholders of the Company or any adjournment thereof, convened by the Notice.
"ASX"	means Australian Stock Exchange Limited.
"Austal" or "Company"	means Austal Limited ACN 009 250 266.
"Board"	means the Board of Directors from time to time.
"Constitution"	means Austal's Constitution as amended from time to time.
"Corporations Act"	means the Corporations Act 2001 (Cth).
"Directors"	means the Directors of Austal from time to time.
"Eligible Employees"	means the employees who are offered the opportunity to participate in the Option Plan by the Board and which include Executive Directors, Managers, General Managers and Department Managers.
"Eligible Person"	means an Eligible Employee, the spouse of an Eligible Employee, a body corporate in which an Eligible Employee holds and beneficially owns not less than 50% of the issued voting share capital, the trustee of a trust in which an Eligible Employee is a beneficiary or object or the trustee of a superannuation fund of which an Eligible Employee is a member.
"Explanatory Memorandum"	means this Explanatory Memorandum.
"Listing Rules" or "ASX Listing Rules"	means the listing rules of ASX and any other rules of ASX which are applicable while the Company is admitted to the official list of ASX, each as amended or replaced from time to time, except to the extent of any express written waiver by ASX.
"Meeting"	means the Annual General Meeting.
"Notice" or "Notice of Annual General Meeting"	means the Notice of Annual General Meeting which accompanies this Explanatory Memorandum.
"Option"	means a right to subscribe for a Share, subject to its terms and conditions.
"Option Plan"	means the Long Term Incentive Plan of the Company.
"Resolution"	means a resolution referred to in this Notice of Meeting.
"Share"	means a fully paid ordinary share in the capital of Austal.
"Shareholder"	means a holder of Shares.
"Total Shareholder Return"	means the percentage increase in share price and dividends paid over a three year period.
"WST"	means Western Standard Time.

Annexure A - Option Terms

The terms and conditions of the Options are as follows:

1. Each Option entitles the Optionholder to subscribe for and be allotted one ordinary fully paid Share in the Company.
2. The Options are exercisable at not less than the greater of:
 - (a) 20 cents per Share or such other minimum amount (if any) prescribed by the Listing Rules; or
 - (b) the average market price per share (weighted by reference to volume) of the Shares sold through ASX during the 5 trading days on ASX ending on the day preceding the date that the Options are first offered to the Optionholder, ("**Option Exercise Price**").
3. The exercise period for each Option will commence on the date that is the earlier of 3 years from the date of acceptance by an Optionholder of an offer by the Board to acquire Options ("**Grant Date**") or the date of occurrence of one of the following events:
 - (a) a takeover bid in respect of shares in the Company;
 - (b) a change in control of the Company;
 - (c) any time after the announcement of a proposed capital reconstruction;
 - (d) if the Company is removed from the official list of ASX; or
 - (e) in the Board's absolute discretion, in the event of the death or permanent disablement of an Eligible Employee in respect of Options held by that Eligible Employee.
4. The number of options which may be exercised is dependent on the Total Shareholder Return for the 3 year period commencing on 31 August prior to the Grant Date ("**Return Period**").

The following Vesting Scale will determine the number of Options that vest:

TSR over 3 Years	Options 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

5. The Optionholder may not exercise any of the Options until the Board notifies the Optionholder of the Total Shareholder Return for the Return Period. Prior to 15 September in each year, the Board will determine and notify the relevant Optionholders of the Total Shareholder Return for the Return Period. The Options are exercisable at any time between the Grant Date and the Last Exercise Date being a 4 year period, by notice in writing to the Board accompanied by payment of the Option

Exercise Price. The exercise period for each Option will continue until the date specified in the Option certificate ("Last Exercise Date") when it will automatically lapse.

6. All shares issued upon exercise of the Options will rank equally in all respects with the Company's Shares. The Company will apply for Official Quotation by ASX of all shares issued upon exercise of the Options. The Company will not apply to have the Options granted under the Plan quoted on ASX.
7. There are no participating rights or entitlements inherent in the Options and Optionholders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Options. However, if from time to time on, or prior to, the expiry of the Options the Company makes an issue of new Shares to the holders of ordinary fully paid Shares, the Company will send a notice to each holder of Options at least nine (9) Business Days before the record date referable to that issue. This will give Optionholders the opportunity to exercise their Options prior to the date for determining entitlements to participate in any such issue.
8. If from time to time prior to the expiry of any Options the Company makes an issue of any class of shares to the holders of ordinary shares in the Company on a pro rata basis by way of capitalisation of profits or reserves (other than an issue in lieu of dividends) (a "**bonus issue**") then upon exercise of an Option, each Optionholder is entitled to have issued (in addition to the shares which would otherwise be issued upon such exercise) the number of shares of the class which would have been issued to the Optionholder under the bonus issue ("**bonus shares**") if on the date on which entitlements to participate in the bonus issue were calculated the Optionholder had been registered as the holder of the number of shares of which the Optionholder would have been registered as holder if immediately prior to that date the Option had been exercised and the shares the subject of such exercise had been duly allotted and issued. The bonus shares must be paid up by the Company out of profits or reserves (as the case may be) in the same manner as was applied in relation to the bonus issue and upon issue rank equally in all respects with the other shares of that class on issue at the date of issue of the bonus shares.
9. If, in the reasonable opinion of the Board, an Eligible Employee acts fraudulently or dishonestly in any material respect or is in material breach of his or her obligations to the Company, then the Board may deem any unexercised Options of the Eligible Employee (or the Eligible Person in respect of the Eligible Employee) to have lapsed.
10. There is no right to a change in the exercise price of the Options or to the number of shares over which the Options are exercisable in the event of a new issue of capital (other than a bonus issue) during the currency of the Options.
11. In the event of any reorganisation of the issued capital of the Company on or prior to the expiry date of the Options, the rights of an Optionholder will be changed to the extent necessary to comply with the applicable ASX Listing Rules in force at the time of the reorganisation.

Annexure B - Summary of Option Plan

Establishment and termination of Option Plan

1. The Board may establish and administer the Option Plan in accordance with the terms and conditions set out in the Option Plan.
2. The Board may terminate the Option Plan at any time that it considers appropriate in its absolute discretion.
3. Where the Board terminates the Option Plan the Board cannot grant any further Options under the Option Plan, but all Options already granted remain in existence and, notwithstanding the termination, the Option Plan continues to have effect in relation to those Options until the last of them lapses.

Entitlement to participate

4. The Board may from time to time and in its absolute discretion determine that an Eligible Person may participate in the Option Plan and the extent of that participation. In making that determination, the Board may consider:
 - (a) the seniority of the Eligible Employee and the position the Eligible Employee occupies;
 - (b) the length of service of the Eligible Employee;
 - (c) the record of employment of the Eligible Employee (such as the achievement of prescribed performance hurdles);
 - (d) the potential contribution of the Eligible Employee to the growth and profitability of the Company;
 - (e) any other matters which the Board considers relevant.

Offers

5. Subject to the terms of the Option Plan, the Company (acting through the Board) may within 14 days following announcement of its full year financial results to ASX or, at such times as the Board considers appropriate, make an Offer in writing (in such form as the Board decides from time to time) to Eligible Employees, or any one or more of them, for a grant of Options and specifying an acceptance period of 7 Business Days or such other period as the Board determines ("**Offer Period**").
6. The number of Options offered will be determined by the Board and the Offer is not transferable or capable of being accepted by any person other than the Eligible Employee to whom it is addressed.

Applications

7. Following receipt of an Offer, the Eligible Employee or an Eligible Person in respect of that Eligible Employee ("**Applicant**") may apply for the Options.
8. The Applicant may apply for the full number of Options or part of them (but only in multiples of 1,000 Options) by sending to the Secretary of the Company a prescribed Acceptance form which will be attached to the Offer duly signed and completed ("**Acceptance Form**").
9. The Acceptance Form must be received by the Company within the Offer Period.

Grant of Options

10. At the conclusion of the Offer Period, the Company shall issue an Option Certificate to each Applicant who has submitted a duly signed and completed Acceptance Form for Options. The date this occurs is the “**Grant Date**” and each such Applicant is then known as the “**Optionholder**”.
11. Unless otherwise determined by the Board when it resolves to grant the Option, each Option is granted on the terms described in Annexure A.

Notice of Exercise

12. Options may only be exercised by notice in writing to the Company which is signed by the Optionholder and delivered to the Company Secretary at the registered office of the Company. The notice must specify the number of Options being exercised and must be accompanied by:
 - (a) the exercise price for the number of Options specified in the notice; and
 - (b) the certificate for those Options, for cancellation by the Company.

Issue of certificates

13. Within 10 Business Days of receipt of the notice, the Board must:
 - (a) allot and issue the number of Shares specified in the notice to the Optionholder;
 - (b) cancel the certificate for the Options being exercised; and
 - (c) if applicable, issue a new certificate for any remaining unexercised Options covered by the certificate accompanying the notice.

Reconstruction of capital

14. In the event that, prior to the expiry of any Options, there is a reconstruction (including a consolidation, subdivision, reduction or return) of the issued capital of the Company, then the number of Options to which each Optionholder is entitled or the exercise price or both will be reconstructed in the manner required by the Listing Rules.

Number of Options to be granted

15. The number of shares the subject of an offer or invitation made as a consequence of an offer or grant of Options when aggregated with:
 - (a) the number of Shares in the same class which would be issued were each outstanding Option to acquire unissued Shares under the Plan exercised; and
 - (b) the number of Shares in the same class issued during the previous 5 years pursuant to the Plan or any other employee share scheme operated by the Company,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; or

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

must not exceed 5% of the total number of issued shares in the same class at the time of the offer or grant of Options.

Ceasing to be an Eligible Person

16. If at any time before the commencement of the exercise period an Optionholder ceases to be an Eligible Person, all Options held by that person will automatically lapse unless the Board otherwise determines within 30 days of the Optionholder ceasing to be an Eligible Person or unless the Eligible Person has previously lodged a notice of exercise.

Transfer of Options

17. Each Option is transferable by a Optionholder if, and only if the transfer is to the Eligible Employee for whose benefit that Option was originally granted or an Eligible Person in respect of that Eligible Employee. Otherwise, subject to the Listing Rules, Options issued under the Plan are not transferable except with the prior written approval of the Board. Any instrument of transfer must be in writing, signed by both parties, duly stamped and otherwise in such form as the Board may from time to time prescribe.

Amendments to the Option Plan

18. Subject to the Listing Rules, the Board may from time to time alter, delete or add to or amend any other provisions of the Option Plan. Such amendment will be effected by an instrument in writing and, except as described below, may be made without the Board obtaining the consent of Shareholders of the Company.
19. The Board may amend the provisions of the Plan, or any restrictions or other conditions relating to any Option granted pursuant to the Plan with a retrospective effect provided that the Board obtains prior approval of at least 50% of the Optionholders who are affected by the retrospective amendment in relation to Options previously granted to them under the Plan.
20. As soon as is reasonably practicable after making any amendment, the Board will give notice in writing of the amendment to any Optionholder affected by the amendment.

Powers of the Board

21. The Option Plan will be administered by the Board which has the power to:
- (a) determine procedures from time to time for administration of the Option Plan consistent with the provisions of the Option Plan;
 - (b) amend or modify the Option Plan;
 - (c) resolve conclusively all questions of fact or interpretation arising in connection with the Option Plan; and
 - (d) delegate to any one or more persons for such period and on such conditions as they may determine, the exercise of the Board's powers or discretions arising under the Option Plan.