

CHAIRMAN'S REVIEW

“AWE has the people and the commitment to expand and grow and offer shareholders a more than acceptable return”

2008-09 was a year like never before for most of us, with dramatic changes in equity values, crude prices and currency as a global financial crisis impacted companies and individuals alike.

After a spectacularly successful prior year, AWE was inevitably faced with significant challenges. Nevertheless, the Company has stayed on course in the difficult external environment and remains well positioned for long-term growth, despite reduced year-on-year financial results and shareholder returns. Net profit after tax was \$89 million, and cash reserves stood at \$356 million at year end with no debt. During the year AWE was admitted to the ASX 100, reflecting the growth and success of the Company over its 12 years as a listed company and we were pleased to be able to pay a one-time special franked dividend of 10 cents per share in January 2009.

Generally our production operations have performed reliably and consistently, although longer than scheduled shut downs were experienced at BassGas and Cliff Head. Tui while in natural reservoir decline has once again been the major contributor to AWE's results and has performed slightly ahead of expectations. The Tui area remains a key focus for further reserves extension and development.

The merger with Arc Energy which offered complementary assets, increased reserves and production to AWE, was completed successfully and integration of the two companies has progressed satisfactorily. The onshore Perth Basin assets however have not delivered up to expectations, with a decline in production, delays in the drilling program and disappointing results once the program commenced.

It is once again pleasing to note the Company's performance in safety and environmental responsibility: achieving targets of zero LTIs or environmental incidents is challenging but very important for any operating company and reflects strong management commitment and effective systems and processes.



Operations at Dongara gas project

We have again focused significant effort on a broad range of sustainability initiatives documented in this Annual Report. AWE's ultimate success and therefore responsibility to our shareholders depends on our ability to successfully explore for and develop and produce oil and gas in a reliable and secure way. In achieving this, we aim to have a sustainability performance we can all be proud of, enabling us to earn the confidence of our joint venturers, shareholders and the communities in which our activities take place. AWE is pleased to report that during 2009 no oil spill incidents occurred at AWE operated or non-operated sites. At AWE, we regard any uncontained oil spill as unacceptable. Whilst our focus is on prevention, we are also ready to minimise the impact if a spill occurs.

AWE is committed to strong growth and to continually improving our framework for managing sustainability and integrating it further into our core business practices and processes. As we expand our operations in Australia, New Zealand, Asia, the Middle East and Europe, we understand the importance of reporting our sustainability



Bruce McKay, AWE Chairman

performance to our stakeholders in an open and transparent manner whilst building trust. Furthermore, for the first time we have participated in the international Carbon Disclosure Project and we are prepared to benchmark our progress on the relevant parameters captured in that survey.

The industry environment has been exceptionally volatile in the last year with WTI oil prices reaching more than US\$145 per barrel in July 2008 then in less than six months almost touching US\$30 per barrel on the downside. While some measure of relative stability has returned over the last few months, it would be frivolous to predict future movements with great certainty. Consensus opinion would indicate around a range of US\$65–US\$80 per barrel. In the long term, AWE's firm gas contracts provide a solid foundation for sustained contribution from existing and planned developments. Mirroring the oil price volatility, the AWE share price declined from \$4.16 on 30 June 2008 to \$2.57 on 30 June 2009 (during the year AWE shares reached a high of \$4.20 but also a low of \$1.75).

As a result of prudent management, AWE is blessed with a strong balance sheet, cash in reserve and zero debt. We have taken the strategic view that exploration represents our best opportunity to deliver significant growth in shareholder value and have accordingly committed over \$175 million to a drilling program over the next 12 months. Concurrently we continue to evaluate merger and acquisition opportunities but we will be primarily driven by our technical assessment of the rocks and the fluids to ensure that only profitable additions to the portfolio are pursued.

Notwithstanding the perception that the difficult global financial circumstances over the last year may release some valuable opportunities, we have identified few Australian assets or obvious distress sales which meet our criteria. However, we remain well positioned to respond to the right opportunity when it becomes

available. With a disciplined and balanced approach to exploration and acquisitions, we are confident that the Company can deliver further rewards to shareholders.

In response to our strategic direction, AWE has expanded its geoscience capability to more fully review drilling candidates adjacent to our existing assets as well as identify new prospective areas across a range of geographies: the Company is also seeking to build its internal production engineering resources. Once again, I would like to compliment AWE management and staff for their technical competence, professional approach and commercial acumen and especially Managing Director Bruce Wood and his leadership team for their effective management of the Company.

Succession plans for the AWE Board have been announced. Eddie Smith resigned during the year after ill health and on behalf of my fellow directors, the AWE staff and shareholders, I thank Eddie for his contribution to AWE since the Omega transaction in 2001. Similarly, our longest serving director, Colin Green, will retire at the November 2009 Annual General Meeting: it has been a privilege to work with Colin for more than 12 years in which time he has injected strong financial discipline and sound corporate governance principles. I genuinely thank Eddie and Colin for their role in the growth of AWE and delivery of value to shareholders. I am pleased to welcome as non-executive directors Ken Williams and Bruce Phillips, subject to shareholder election at the AGM. Both have the appropriate skill and approach to critically review and direct AWE's strategy and its implementation and I look forward to their constructive input.

AWE has the people and the commitment to expand and grow and offer shareholders a more than acceptable return on their investment. I thank you all for your support.

Bruce G. McKay
Chairman