

REMUNERATION REPORT

This report is prepared in accordance with section 300A of the Corporations Act 2001. Where appropriate, information which is included in other parts of the Annual Financial Report is included in this report by reference.

AWE strives to achieve best practice in all aspects of corporate governance and as such, has followed Best Practice principles in the Remuneration Report as outlined herein. AWE has also obtained guidance from the Australian Institute of Company Directors ("AICD"), the ASX, the International Corporate Governance Network ("ICGN"), industry professionals and has relied on market comparative data in the creation of this document and subsequent implementation of remuneration policies.

Given the expanding size and nature of the Company's operations and staff numbers, AWE has continued to review remuneration practices during the current financial year to ensure that remuneration packages and policies are competitive and appropriate in today's environment. As a consequence of this review in particular it is proposed that AWE implement an employee cash share plan (refer to Section 2.3.3 of this report) as a means of providing long term incentives to employees and it is anticipated that employee share options will no longer be issued.

1. Remuneration Policies

1.1 Remuneration committee

The Remuneration Committee is responsible for making recommendations to the Board on remuneration policies applicable to directors, senior executives and employees.

The role of the Remuneration Committee is documented in a formal charter approved by the Board and is reviewed and updated periodically.

The responsibilities of the Remuneration Committee are to review and make recommendations to the Board on:

- policies for employment and remuneration of all AWE staff;
- recruitment, retention and termination policies and procedures for senior executives;
- the remuneration package of the Managing Director;
- the remuneration packages of senior executives in consultation with the Managing Director;
- performance schemes including short term incentives and share incentive plans based upon measurable performance objectives;
- superannuation arrangements;
- the remuneration framework for non-executive directors, within the limit approved by shareholders; and
- other matters as requested by the Board.

The Remuneration Committee is to be comprised of not less than two non-executive directors, the majority of whom shall be independent. The Remuneration Committee comprises Mr Bruce McKay (Chairman) and Mr Colin Green. Up until his resignation as a director of the Company on 16 June 2009 Mr Edward Smith was also a member of the Remuneration Committee.

Meetings are to be held at least twice a year. The number of Remuneration Committee meetings and the number of meetings attended by each of the members of the Remuneration Committee during the financial year and information regarding Committee member experience and responsibilities are set out in the Directors' Report.

The remuneration policy of AWE is to establish remuneration practices that:

- are consistent with the Company's goals and objectives;
- deliver outcomes in line with strategic business goals;
- recognise the scale and complexity of the Company's business activities;
- encourage directors and senior executives to pursue the long-term growth and success of the Company within an appropriate control framework;
- deliver a level and composition of remuneration that is appropriate and fair to a broad range of stakeholders;
- define the relationship of remuneration to corporate and individual performance; and
- attract and retain talented and effective directors and employees so as to encourage enhanced performance of the Company.

The Remuneration Committee evaluates the appropriateness of remuneration packages, given trends in comparable companies, the need to drive a performance-based culture and the objectives of the Company's remuneration strategy.

REMUNERATION REPORT

continued

1.2 Remuneration Structures

The remuneration structures explained in this report are designed to attract and retain suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of sufficiently motivating directors and senior executives to create value for shareholders. The remuneration structures take into account:

- the capability and experience of directors and senior executives;
- the ability of directors and senior executives to control the performance of their relevant area of responsibility;
- the performance of the consolidated entity including:
 - the success of exploration and production activities;
 - compliance with regulatory regimes;
 - adherence to health, environment and safety policies;
 - the consolidated entity's financial results; and
 - the growth in share price and returns to shareholders;
- the level of performance benefits within each executive's remuneration package;
- the relative value of each component of the remuneration package; and
- current economic and industry circumstances.

For the purposes of this report the senior executives who represent Key Management Personnel of the consolidated entity are:

Senior Executive	Position
Mr L. J. Brooks	General Manager, Exploration
Mr R. D. Frith*	General Manager, Engineering
Mr N. F. Kelly	Chief Financial Officer/Company Secretary
Mr I. D. Palmer	General Manager, Development
Mr D. Washer	General Manager, New Zealand
Mr B. W. Wray	General Manager, Commercial and Business Development
Mr G. J. Jeffery	General Manager, Western Region (from 28 August 2008)

The five highest paid executives of the Consolidated Entity are included above.

* Mr Frith retired on 8 July 2009.

2. Managing Director and Senior Executives

2.1 Mix of Remuneration

Remuneration packages consist of fixed remuneration in the form of base salary and superannuation (where applicable), short-term performance benefits in the form of cash bonuses and long-term performance benefits in the form of employee share options (historically) and cash share rights (for future awards).

Packages are tailored to individual employees in order to provide strong incentive to deliver business outcomes for the benefit of shareholders and are designed to reflect labour market demands. The aim of individual remuneration packages is to provide a balance between the immediate and the long-term goals of AWE.

Remuneration levels are reviewed at least annually by the Remuneration Committee through a process that considers independent externally provided remuneration data and overall performance of the consolidated entity to ensure that the remuneration of the Managing Director and senior executives is competitive in the market place. A senior executive's remuneration is also reviewed on promotion.

The guiding philosophy of the Company's remuneration structure is to deliver 75th percentile outcomes for the executive if target performance is satisfactorily achieved, with a significant proportion "at risk". Fixed remuneration levels are up to the median of market and industry comparatives, while short term incentives in the form of annual cash bonus payments and long term incentives in the form of employee share options (historically) and employee cash share rights (for future awards) are designed to deliver total remuneration packages which approximate third quartile market levels. Above target performance can result in top quartile remuneration outcomes versus the relevant market comparatives.

Managing Director – fixed remuneration (base salary plus superannuation) comprises 40-100% of the total remuneration package, with short-term performance benefits designed to offer up to 50% of the fixed remuneration and long-term performance benefits designed to offer up to 100% of the fixed remuneration. For outstanding absolute and relative AWE share price performance, the long term incentive plan could ultimately deliver greater than 100% of fixed remuneration.

Senior Executives – fixed remuneration (base salary plus superannuation) comprises 50-100% of the total remuneration package, short-term performance benefits up to 40% of the fixed remuneration and long-term performance benefits up to 60% of fixed remuneration. For outstanding absolute and relative AWE share price performance, the long term incentive plan could ultimately deliver greater than 60% of fixed remuneration.

2.2 Fixed Remuneration

Fixed remuneration consists of base remuneration calculated on a total cost basis, including fringe benefits tax and employer contributions to superannuation (if applicable).

The annual review of fixed remuneration determined that in the current challenging economic climate there would be no increases effective July 2009 for all levels of staff, other than to correct obvious anomalies or on promotion or acceptance of increased responsibilities of an employee.

A further review of fixed remuneration levels will be undertaken in January 2010.

2.3 Variable Remuneration

Variable remuneration, which includes both short-term and long-term components, is designed to reward the Managing Director and senior executives for meeting or exceeding their respective financial, operational and individual objectives. Those benefits are an "at risk" bonus provided in the form of cash and/or employee share options (historically) and cash share rights (for future awards).

Each year, the Board sets the Key Performance Indicators ("KPIs") for the Managing Director and the corporate performance targets. The Managing Director then sets KPIs for the senior executives. The KPIs take into consideration measures relating to the performance of the consolidated entity, the relevant part of the business and the individual, and include but are not limited to exploration and production activities, financial performance, total shareholder returns and risk strategy measures. The measures are chosen to align the individual's reward to the KPIs of the consolidated entity and to its strategy and performance.

2.3.1 Short-term Performance Benefits

Short-term performance benefits are awarded in the form of cash bonuses paid on an annual basis for performance during a given financial year.

Managing Director

A short-term performance benefit of up to 50% of fixed remuneration can be awarded subject to satisfaction of KPIs as approved by the Board. For the June 2009 financial year these KPIs were based on a balanced scorecard approach and included measures which reflected, in equal proportion:

- Safety and environmental performance;
- Financial results;
- Team leadership; and
- Company growth.

There are two reward bands – target (meets performance objectives) and stretch (exceeds performance objectives).

Achievement of target consolidated entity performance entitles the Managing Director to a short-term performance benefit of 25% of fixed remuneration and a further 25% of fixed remuneration on the achievement of stretch targets.

Senior Executives

A short-term performance benefit of up to 40% of fixed remuneration can be awarded subject to satisfaction of KPIs

The criteria for the award of short-term performance benefits to senior executives are:

Consolidated Entity Performance (maximum of 20% of fixed remuneration) – the performance of the consolidated entity as per the KPIs of the Managing Director.

Individual Performance (maximum of 20% of fixed remuneration) – a combination of individual KPIs and departmental KPIs over which the individual senior executive has responsibility.

KPIs are determined in advance each year and the Managing Director annually reviews and determines the performance of each senior executive against these KPIs with the Remuneration Committee.

There are two reward bands – target (meets performance objectives) and stretch (exceeds performance objectives).

Achievement of target consolidated entity performance entitles the senior executive to a short-term performance benefit of 10% of fixed remuneration and a further 10% of fixed remuneration on the achievement of stretch targets.

Similarly, the achievement of target individual performance entitles the senior executive to a short-term performance benefit of 10% of fixed remuneration and a further 10% of fixed remuneration on the achievement of stretch targets.

In the special circumstance of outstanding individual performance, the Board may award up to 100% of that individual's short term performance benefit even though some KPIs have not been achieved. This special circumstance is designed to reward and retain outstanding employees in times where some KPI targets have not been achieved due to circumstances beyond the control of the individual senior executive.

REMUNERATION REPORT

continued

2.3.2 Long-term Performance Benefits

Long-term performance benefits in the form of employee share options have historically been granted to senior executives and the number granted is based on the relative level of the individual senior executive in the consolidated entity and generally have a vesting period of three years and a total term of five years.

In addition, employee share options have been granted to attract and provide incentive for suitably qualified new senior executives.

In July 2008, employee share options were granted to senior executives but employee share options which would normally have been granted to senior executives in July 2009 have not been granted pending the implementation of a proposed cash share plan (refer Section 2.3.3).

The vesting of all employee share options is subject to the satisfaction of relative performance conditions. Relative performance criteria used to determine the ability of senior executives to exercise employee share options is measured by comparing the consolidated entity's TSR over a rolling three-year period against both the ASX Energy Index and the ASX 200 Index (refer to Section 5.2 for the relative performance criteria applying to the June 2009 financial year).

Under the relative performance measure, the consolidated entity must outperform the nominated index or indices over the previous rolling three-year period for employee share options to vest. If this relative performance measure is not satisfied, then only a proportion of employee share options will vest. Further, retesting of this relative performance measure is allowed every twelve months until expiry of the employee share option (which is generally a period of a further two years).

In a similar manner to the award of short-term performance benefits, in the special circumstance of outstanding individual performance, the board may allow employee share options to vest even though the relative performance criteria has not been achieved. Again, this is designed to retain outstanding employees in the special circumstance where these targets have not been achieved due to circumstances beyond the control of the individual senior executive. No such circumstances applied in the 2009 financial year and the Board did not allow for vesting of any options beyond the performance criteria or general rules of the plan.

Employee share options have generally been granted with a three year vesting period and can only be exercised by senior executives at the end of that three year period on the satisfaction of the relative performance criteria. Accordingly, senior executives will only be rewarded in circumstances where both the Company's share price achieves long-term growth and the relative performance criteria have been achieved.

Any options granted are issued under the Employee Share Option Plan (made in accordance with the plan approved by shareholders at the time of the float of the Company).

Key terms of the Employee Share Option Plan include:

- The exercise price must not be less than the higher of the market price or the minimum price specified in the ASX Listing Rules. The market price is determined by the five-day volume weighted average price prior to grant.
- The sum of the number of shares issued on the exercise of options in the previous five years and the number of unexercised options cannot exceed 5% of the total number of shares on issue at any time.
- Options are issued for a term of not more than five years, may have various vesting periods and can only be exercised after the conditions of exercise are met.

Without approval from the Chairman or the Remuneration Committee, senior executives are not permitted to enter into 'hedge contracts' or other forms of arrangements which may have the effect of fixing the value of, or return on, securities which form part of the incentive component of their remuneration or salary package (whether the securities are fully vested or not). As a general rule, approval is only likely to be given in exceptional circumstances (which will be determined at the discretion of the Chairman or Remuneration Committee as the case may be) and no such approvals have been granted.

On implementation of the merger with Arc Energy, the Company previously announced its intention to move towards the issue of performance rights rather than employee share options as a means to deliver long-term incentive benefits. The introduction of this scheme has been delayed by the recent changes announced in the 2009 Federal Budget regarding such plans and the taxation of such benefits. Once the final legislation is passed, the Company will confirm the details of the plan.

2.3.3 Proposed Employee Cash Share Plan

The employee cash share plan is designed to generate performance-based cash awards that may be converted, at the Board's discretion, into cash, AWE shares or other employee benefits.

The key elements of the proposed plan include:

- Rights will be granted automatically each year;
- The number of rights granted will be determined by the employee's level in the Company, their fixed remuneration and the value of the right, which is related to the 30-day VWAP of the AWE share price in the June of the year of grant (see below for proposed levels of grants for the Managing Director and senior executives);
- There will be three tranches of rights with separate vesting criteria;
 - Retention
 - Absolute TSR
 - Relative TSR
- The vesting period will be three years and there will be no retesting.

The conditions for the cash share rights and the criteria for vesting will be:

Retention Grants

- Valued at 30-day VWAP of AWE share price in June of grant year
- Vest after three years if participant remains employed by AWE

Absolute TSR Grants

- Valued with 33 $\frac{1}{3}$ % discount to 30-day VWAP of AWE price in June of grant year
- Vest after three years according to the table below of 30-day VWAP in June of Year 3 vs. 30-day VWAP in June of grant year

AWE TSR	% of rights to vest
<6% pa compound	0
6% pa compound	25%
>6% and <9% pa compound	Pro rata
9% pa compound	50%
>9% and <12% pa compound	Pro rata
12% pa compound	100%

Relative TSR Grants

- Valued with 33 $\frac{1}{3}$ % discount to 30-day VWAP of AWE price in June of grant year
- Vest after three years according to the table below of AWE TSR relative to companies in ASX Energy Index in grant year (companies no longer in the index are excluded)

AWE TSR relative to TSRs of companies in S&P/ASX Energy Index at date of grant	% of rights to vest
< P(50)	0
P(50)	50%
>P(50) and <P75)	Pro rata
P(75) and above	100%

Vested rights will entitle the participant in the plan (all full-time and permanent part-time employees will be eligible) to a cash amount which will vary with the AWE share price. Participants in the plan may at any time after vesting request the Board to pay out Vested Awards and the Board may approve or decline the payout request. If not paid out in cash or other employee benefits at the time of vesting or request, these entitlements will be contributed to an employee share acquisition trust (ESAT), from which the Board can deliver cash or shares at its discretion to the participant. The Board may determine to pay out Vested Awards at any time irrespective of whether or not the participant has requested that a Vested Award be paid out.

REMUNERATION REPORT

continued

The ESAT is an entity that may:

- Accept non-refundable contributions from AWE or the AWE Group
- Apply them to acquire AWE shares, as directed by the Board, by either on-market purchase or subscription to a new issue
- Transfer title of those shares to the participant

The proposed cash share rights to be granted to the Managing Director and senior executives as a percentage of fixed remuneration is shown in the following table (consistent with the Mix of Remuneration described in Section 2.1):

	Retention Vesting Condition	Absolute TSR Vesting Condition	Relative TSR Vesting Condition	TOTAL
Managing Director	20%	40%	40%	100%
Senior Executives	20%	20%	20%	60%

The 30 day VWAP to 30 June 2009 was \$2.71.

2.3.4 Rationale for Choice of Criteria for Determining Variable Remuneration

For the short term performance benefits (annual cash bonuses), the Remuneration Committee considers that establishing meaningful and measureable corporate, departmental and individual KPIs can drive performance for which the Company rewards the performance of individuals and their contribution to achieving the corporate objectives.

For historical long term performance benefits (employee share options awarded in prior years), the TSR performance criterion was chosen as it is widely accepted as one of the best indicators of shareholder wealth creation, as it includes share price growth, dividends and other capital adjustments. The comparator index used to measure relative TSR performance is determined annually so that remuneration levels are not purely formula driven and a degree of flexibility is retained. This will allow the Remuneration Committee to take into account any abnormal factors that may affect the measure of relative TSR performance. For the 2009 financial year the Company's share price performance was compared to both the ASX 200 Index and the ASX Energy Index and underperformed against both.

For the proposed employee cash share plan, the rationale for the choice of absolute and relative TSR and retention criteria include:

- To align employees with commonly shared goals related to producing high returns for shareholders over the medium to long term;
- To encourage and assist employees to become shareholders of AWE themselves;
- To provide a long term component of remuneration to enable AWE to compete effectively for the calibre of talent required for the company to be successful; and
- To help retain such calibre of talent, minimise employee turnover and stabilise the workforce.

The Remuneration Committee considers that the current remuneration structure is generating the desired outcome and a direct linkage has been established between company performance and short and long-term rewards. The evidence for this is that there has been considerable growth in the Company over the last five years and in addition, the Company has been successful in attracting and retaining a highly skilled and motivated workforce.

2.4 Other Benefits

The personal needs of directors and senior executives may be taken into account when determining the appropriate remuneration mix and the Company allows salary sacrifice arrangements to the extent that there is no net cost to the Company doing so.

2.5 Service Agreements

Managing Director

Mr Bruce Wood has been Managing Director of the Company since 1 September 2007 and at the time of his formal appointment details of the service agreement entered into with Mr Wood was disclosed. A summary of the key terms of the service agreement and remuneration details are as follows:

Term of contract:

Commencement date of 1 September 2007 under a rolling twelve month contract with a minimum term of three years.

Remuneration:

- Current fixed remuneration of \$750,000 per annum inclusive of superannuation reviewed annually on 1 July (refer comment in Section 2.2 of this report where it is noted that this annual review determined that no increases would be awarded to employees including the Managing Director before January 2010).
- Short-term performance benefits as summarised in Section 2.3.1 of this report.
- Long-term performance benefits in the form of employee share options of up to 50% of total remuneration granted on a rolling three year basis. These options vest if the consolidated entity achieves relative shareholder returns as described in Section 2.3.2 of this report.

No employee share options were granted to Mr Wood during the financial year and the only options issued since commencement of employment was pursuant to the approval of shareholders at the 2007 Annual General Meeting of the Company (refer to the Director's Interest section of the Directors' Report).

Under the proposed Employee Cash Share Plan, Mr Wood may be granted subject to shareholder approval 55,351 Retention Grants, 166,068 Absolute TSR Grants and 166,068 Relative TSR Grants.

Termination:

The service contract may be terminated under the following circumstances:

- Resignation by Mr Wood on twelve months notice;
- Termination on twelve months notice by the Company. However, if notice is given in the first three years of employment, the longer of the balance of the term or twelve months; or
- Termination without notice by the Company for cause.

Senior Executives

The Company has entered into service agreements with all senior executives that are unlimited in term but capable of termination on one month's notice and the Company retains the right to terminate the agreement immediately, by making payment equal to one month's pay in lieu of notice. The agreements stipulate that senior executives are entitled, where applicable, to receive long service leave after 10 years service and are also entitled to receive on termination of employment their statutory entitlements of accrued annual and long service leave, together with any superannuation benefits.

The service agreements outline the components of remuneration paid to the senior executive but does not prescribe how remuneration levels are modified year to year. Remuneration levels are reviewed each year to take into account cost-of-living changes, any change in the scope of the role performed by the senior executive and any changes required to meet the principles of the remuneration policy.

There are however exceptions to the above agreements as follows:

Mr Brooks and Mr Kelly – contingency payments may be made under certain circumstances amounting to one year's remuneration for less than 10 years of service and two years' remuneration for greater than ten years of service in addition to accrued statutory entitlements including long service leave, annual leave and superannuation benefits.

Mr Wray – a service agreement has been entered into for a minimum term of two years commencing on 2 June 2008 and may be terminated in the following circumstances:

- Resignation by Mr Wray on six months notice;
- Termination on twelve months notice by the Company;
- Termination without notice by the Company for cause.

Mr Jeffery – an agreement has been entered into for a minimum term of 16 months commencing on 25 August 2008 and may be terminated in the following circumstances:

- Resignation by Mr Jeffery on two months notice;
- Termination on ten months notice by the Company;
- Termination without notice by the Company for cause.

The Company is reviewing all employment contracts with senior executives with a view to aligning and updating terms and conditions across the expanded Company and in light of legislative changes announced during the 2009 financial year. In particular, it is intended that the notice periods be aligned for the benefit of both the senior executive and the Company.

3. Non-executive Directors

Total remuneration for all non-executive directors, last voted upon by shareholders at the 2006 Annual General Meeting of the Company, is not to exceed \$700,000 per annum. Total remuneration paid to non-executive directors in the financial year amounted to \$618,000. Fees are set based on review of externally provided remuneration data with reference to fees paid to other non-executive directors of comparable companies. Directors' base fees for the 2009 financial year were as follows:

	Board	Audit Committee	Remuneration Committee	Operations Risk Committee
Chair	\$200,000	\$22,000	\$12,000	\$12,000
Member	\$80,000	\$11,000	\$7,500	\$7,500

REMUNERATION REPORT

continued

The amounts are inclusive of superannuation. Consistent with determination of the Remuneration Committee in the annual review of fixed remuneration for employees for July 2009, director's fees will not be increased in the 2010 financial year although shareholder approval will be sought at the 2009 Annual General Meeting to increase the total remuneration for all non-executive directors to not exceed \$900,000 per annum. This will provide flexibility to appoint new and/or additional directors commensurate with managed Board succession planning and renewal and the range and complexity of the Company's international operations as well as for future increases when appropriate.

Non-executive directors do not receive incentive-based remuneration and do not receive any retirement benefits other than statutory entitlements.

4. Directors' and Executive Officers' Remuneration

Details of the nature and amount of each major element of remuneration of each director of the Company and each of the named senior executives are as follows:

		Short-term			Total	Post employment	Other long-term	Share-based payments	Total	Performance Related	Value of options
		Salary package and fees (a)	Cash bonus (b)	Non-monetary benefits		Superannuation benefits (c)	(d)	Value of options (e)			
		\$	\$	\$	\$	\$	\$	\$	\$	%	%
Directors											
Company and Consolidated entity											
B. G. McKay	2009	201,377	-	-	201,377	18,123	-	-	219,500	-	-
	2008	149,375	-	-	149,375	11,644	-	-	161,019	-	-
B. J. Phillips	2009	-	-	-	-	-	-	-	-	-	-
	2008	275,000	-	4,237	279,237	24,750	19,582	23,017	346,586	7%	7%
B. J. W. Wood	2009	688,073	168,750	9,375	866,198	61,926	6,596	288,645	1,223,365	37%	24%
	2008	531,250	250,000	-	781,250	47,813	7,790	416,433	1,253,286	53%	33%
C. C. Green	2009	100,458	-	-	100,458	9,042	-	-	109,500	-	-
	2008	80,000	-	-	80,000	7,200	-	-	87,200	-	-
E. S. Smith	2009	91,284	-	-	91,284	8,216	-	-	99,500	-	-
	2008	67,500	-	-	67,500	6,075	-	-	73,575	-	-
D. I. McEvoy	2009	90,367	-	-	90,367	8,133	-	-	98,500	-	-
	2008	67,500	-	-	67,500	6,075	-	-	73,575	-	-
A. J. Hogendijk	2009	83,486	-	-	83,486	7,514	-	-	91,000	-	-
	2008	46,875	-	-	46,875	4,219	-	-	51,094	-	-
Total*	2009	1,255,045	168,750	9,375	1,433,170	112,954	6,596	288,645	1,841,365	25%	16%
	2008	1,217,500	250,000	4,237	1,471,737	107,776	27,372	439,450	2,046,335	34%	21%

* Mr B. J. Phillips retired as a director of the Company on 31 August 2007 and remained as an employee until 31 December 2007.
Mr B. J. W. Wood was appointed a director of the Company on 11 April 2007 and managing director on 1 September 2007.
Mr A. J. Hogendijk was appointed a director of the Company on 4 October 2007.
Mr E. S. Smith resigned as a director on 16 June 2009.

		Short-term			Total	Post employment	Other long-term	Share-based payments	Total	Performance Related	Value of options
		Salary package and fees (a)	Cash bonus (b)	Non-monetary benefits		Super-annuation benefits (c)	(d)	Value of options (e)			
		\$	\$	\$	\$	\$	\$	\$	\$	%	%
Executives											
Consolidated entity											
L. J. Brooks	2009	352,000	65,226	16,606	433,832	31,680	12,439	72,647	550,598	25%	13%
	2008	298,605	69,760	8,474	376,839	26,874	29,776	136,250	569,739	36%	24%
R. D. Frith	2009	352,000	115,226	16,606	483,832	31,680	6,587	72,647	594,746	32%	12%
	2008	298,605	69,760	8,474	376,839	26,874	31,484	136,250	571,447	36%	24%
N. F. Kelly	2009	322,000	86,686	11,918	420,604	28,980	6,027	69,236	524,847	30%	13%
	2008	254,373	106,820	8,474	369,667	22,894	32,070	132,830	557,461	43%	24%
I. D. Palmer	2009	322,000	86,686	11,918	420,604	28,980	7,171	53,672	510,427	27%	11%
	2008	262,982	106,820	8,474	378,276	23,668	8,501	100,493	510,938	41%	20%
D. Washer	2009	376,956	113,448	-	490,404	9,808	-	43,732	543,944	29%	8%
	2008	309,367	132,316	-	441,683	-	-	56,492	498,175	38%	11%
B. Wray ⁽¹⁾	2009	336,000	62,261	-	398,261	30,240	1,488	153,832	583,821	37%	26%
	2008	-	-	-	-	-	-	-	-	-	-
G. J. Jeffery ⁽²⁾	2009	424,668	63,000	-	487,668	26,408	-	-	514,076	38%	0%
	2008	-	-	-	-	-	-	-	-	-	-
Total	2009	2,485,624	592,533	57,048	3,135,205	187,776	33,712	465,766	3,822,459	28%	12%
	2008	1,423,932	485,476	33,896	1,943,304	100,310	101,831	562,315	2,707,760	39%	21%

(1) Mr Wray commenced employment on 2 June 2008 and is considered to be a senior executive from 1 July 2008.

(2) Mr Jeffery commenced employment with the AWE group on 25 August 2008, the effective date of the merger of Arc Energy with AWE.

Notes in relation to table of directors' and executives' remuneration:

- Salary package and fees includes amounts salary sacrificed.
- The 2009 cash bonus is for performance during the 30 June 2009 financial year. The amount was finally determined and paid in July 2009 after performance reviews were completed and approved by the remuneration committee.
- Superannuation benefits include the amount required to be contributed by the consolidated entity and does not include amounts salary sacrificed.
- Other long-term benefits comprise the amount of long service leave accrued in the period.
- The fair value of options is calculated at the grant date using a modified binomial option-pricing model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options allocated to this reporting period. In valuing the options, market conditions have been taken into account.

The fair value of options can only be converted to cash by the employee if on exercise of these options the Company's share price exceeds the exercise price by the amount shown as "Fair value per option granted" in the table in Section 6 of this report and the employee sells the shares. Option-pricing models for valuing options are an accounting guideline only.

The following factors and assumptions were used in determining the fair value of options granted to senior executives in the June 2009 financial year:

Grant date	Weighted average share price	Exercise price	Expected volatility	Option life	Expected dividends	Risk-free rate
15 August 2008	\$3.28	\$3.28	25.0%	5 years	0% to 3%	5.76%

No options were granted to the Managing Director in the June 2009 financial year.

Amounts disclosed for remuneration exclude insurance premiums paid by the consolidated entity in respect of directors' and officers' liability insurance contracts. The premium paid has not been allocated to the individuals covered by the insurance policy as, based on all available information; the directors believe that no reasonable basis for such allocation exists.

REMUNERATION REPORT

continued

5. Analysis of Performance Benefits Included in Remuneration

The value of options is allocated to each reporting period over the period from grant date to vesting date. Accordingly, amounts included as remuneration for the financial year represent that amount allocated to the financial year from the grant of options in previous financial years and the current financial year.

5.1 Award of Short-Term Performance Benefits

Short term performance benefits in the form of cash bonuses are awarded to the Managing Director and senior executives on the achievement of consolidated entity and individual performance KPIs (refer to Section 2.3.1 of this report) for the current financial year.

The award of bonuses in July 2009 (as detailed in Section 4 of this report) was in recognition of this performance.

Details of the vesting profile of these short-term cash bonuses are as follows:

	Included in remuneration (A\$) ^(a)	% vested in year	% forfeited in year ^(b)
Director			
B. J. W. Wood	168,750	45.0%	55.0%
Executives			
L. J. Brooks	65,226	42.5%	57.5%
R. D. Frith	115,226 ^(c)	75.1%	24.9%
N. F. Kelly	86,686	61.7%	38.3%
I. D. Palmer	86,686	61.7%	38.3%
D. Washer	113,448	75.2%	24.8%
B. W. Wray	62,261	42.5%	57.5%
G. J. Jeffery	63,000	30.0%	70.0%

(a) Amounts included in remuneration for the financial year represents the amount that vested in the financial year based on satisfaction of specified criteria. No amounts vest in future financial years.

(b) The amounts forfeited are due to that component of base and stretch performance criteria not being met in the financial year.

(c) Having reached 60 years of age, Mr R. D. Frith elected to retire from the company on 8 July 2009. In recognition of his service and outstanding contribution over 12 years with AWE, a special bonus was paid to Mr Frith included in these amounts.

5.2 Grant and Vesting of Long-term Performance Benefits:

Section 2.3.2 of this report details the consolidated entity's approach to the granting and vesting of long term performance benefits.

Granting – Section 7 of this report details the options granted to directors and senior executives in the current financial year.

Vesting – as the consolidated entity's absolute TSR for the rolling three year period to 30 June 2009 of -29% was below the performance of both the ASX Energy Index of 27% and the ASX 200 Index of -11% it has been determined that options granted in previous financial years and vesting in July 2009 are not capable of exercise as more fully described in Section 2.3.2. However these options will be retested in July 2010.

No employee share options have been forfeited in the current financial year as a consequence of the performance criteria not being met.

For details of the vesting profile of employee share options refer to Section 6.

The following table identifies the consolidated entity's performance and benefits for shareholder wealth in respect of the current financial year and the previous six financial years:

	2009	2008	2007	2006	2005	2004	2003
Profit/(loss) (\$' millions)	88.58	264.36	35.38	(1.4)	(11.48)	5.96	10.06
Year end share price (\$)	2.57	4.16	3.64	3.42	2.02	1.52	0.82
Change in share price (\$)	(1.59)	0.52	0.22	1.40	0.50	0.70	0.05
Total shareholder return	(35%)	14%	6%	69%	33%	85%	6%
Relative to ASX 200 Energy Index	(11%)	(21%)	(12%)	38%	(31%)	45%	10%
Relative to ASX 200 Index	(15%)	31%	(17%)	50%	12%	69%	12%

6. Analysis of Share-based Payments Granted as Remuneration

Details of vesting profiles of unvested employee share options granted as remuneration to each director of the Company and each of the named senior executives are detailed below:

Director	Number ^(a)	Grant date	Vested %	Financial years in which options vest	Fair value per option granted \$ ^(c)
B. J. W. Wood*	250,000	26 November 2007	–	30 June 2011 ^(b)	0.54
	300,000	26 November 2007	–	30 June 2011 ^(b)	0.69
	400,000	26 November 2007	–	30 June 2011	0.71
Executives					
L. J. Brooks	150,000	21 July 2006	–	30 June 2011 ^(b)	0.65
	150,000	13 July 2007	–	30 June 2011	0.71
	100,000	15 August 2008	–	30 June 2012	0.59
R. D. Frith	150,000	21 July 2006	–	30 June 2011 ^(b)	0.65
	150,000	13 July 2007	–	30 June 2011	0.71
	100,000	15 August 2008	–	30 June 2012	0.59
N. F. Kelly	130,000	21 July 2006	–	30 June 2011 ^(b)	0.65
	150,000	13 July 2007	–	30 June 2011	0.71
	100,000	15 August 2008	–	30 June 2012	0.59
I. D. Palmer	100,000	21 July 2006	–	30 June 2011 ^(b)	0.65
	100,000	13 July 2007	–	30 June 2011	0.71
	100,000	15 August 2008	–	30 June 2012	0.59
D. Washer	50,000	21 July 2006	–	30 June 2011 ^(b)	0.65
	100,000	13 July 2007	–	30 June 2011	0.71
	100,000	15 August 2008	–	30 June 2012	0.59
B. W. Wray	100,000	12 June 2008	–	30 June 2011 ^(b)	0.75
	100,000	12 June 2008	–	30 June 2011 ^(b)	0.77
	100,000	12 June 2008	–	30 June 2011	0.82
	100,000	15 August 2008	–	30 June 2012	0.59

* This grant of options was approved by shareholders at the 2007 Annual General Meeting of the Company.

(a) The exercise of options is conditional upon satisfaction of relative performance conditions as determined by the Remuneration Committee for the rolling three year period prior to the vesting date.

(b) Options originally vesting in July 2009 are subject to retesting in July 2010. Other than these options no terms of options granted as remuneration have been altered or modified during the reporting period or the prior period.

(c) The fair value per option granted represents the modified binomial option-pricing model valuation for options granted and calculated at grant date.

REMUNERATION REPORT

continued

7. Analysis of Movements in Options

The movement during the reporting period, by value, of options granted over ordinary shares in AWE held by each Company Director and each of the named senior executives is detailed below:

	Grant Date	Number	Granted during year ended 30 June 2009, vesting post 30 June 2009 (\$)
Director			
Nil	–	–	–
Executives			
L. J. Brooks	15 August 2008	100,000	47,360
R. D. Frith	15 August 2008	100,000	47,360
N. F. Kelly	15 August 2008	100,000	47,360
I. D. Palmer	15 August 2008	100,000	47,360
D. Washer	15 August 2008	100,000	47,360
B. W. Wray	15 August 2008	100,000	47,360
G. J. Jeffery	–	–	–
Total		600,000	284,160

* The minimum value of options yet to vest is \$Nil as the performance criteria may not be met and consequently the option may not vest. The maximum value of options yet to vest is not determinable as it depends on the market price of shares of the Company on the Australian Securities Exchange at the date the option vests.

The value of options granted in the year is the fair value of the options calculated at grant date using a modified binomial option-pricing model. The value of options issued is a consequence of the implementation of a rolling three-year vesting period (refer Section 2.3.2). This value does not represent the amount expensed as this amount is allocated over applicable financial periods to the date of vesting. No options lapsed or were forfeited during the year.

During the financial year, no shares were issued to any director or senior executive on the exercise of options previously granted as remuneration.