

Media Release

25 February 2008



FOR IMMEDIATE RELEASE

Arrow delivers strong first half performance as it takes 50% stake in Braemar 2 Power Station.

Key Points

- Solid earnings growth - pre-tax profit of \$A14.2 million
- Margin increases secured through downstream investments
- Robust reserves and production growth
- Low operational costs sustained
- Continued growth in key Asian markets

Leading Australian integrated energy company Arrow Energy today announced a \$14.2 million pre-tax profit for the half year ended 31 December 2007. The company's half year earnings before interest, tax, depreciation and amortisation (EBITDA) was \$21.2 million.

Margin growth

Arrow Chief Executive Officer and Managing Director, Mr Nick Davies said the company had started the current financial year strongly on the back of its high margin strategy and sustained low operational costs.

"Arrow has achieved an operational EBITDA margin of \$1.25 per gigajoule (GJ) up from \$1/GJ a year ago while average field development costs remain at around \$0.50/GJ despite high oil prices causing pressure on goods and services," Mr Davies said.

"We expect our operational EBITDA margin to double by this time next year as our strategic push into downstream markets gains momentum.

"Much of this early growth in margins is due to our exposure to the downstream electricity market, through our throughput ownership of the Daandine and Townsville Power Stations, where prices are very strong" he said.

Arrow's emergence as a major Australian integrated energy player was hastened by the company's acquisition of Enertrade from the Queensland Government in December last year which included the North Queensland Gas Pipeline and the rights to dispatch power from the 230 MW Yabulu Power Station in Townsville.

Arrow also has a 10 percent stake in Liquefied Natural Gas Limited with an option to take a 20 percent interest in the company's proposed LNG plant in Gladstone. Arrow is to provide up to 150 Peta Joules (PJ) of gas per annum to the LNG plant at prices linked to crude oil.

Full Year Earnings Guidance

The strong earnings growth will continue in the second half of the financial year with the company expecting full year results for the financial year ending 30 June 2008 to include revenues in the range of \$92 – 97 million, EBITDA of \$55 – 60 million and pre-tax earnings of between \$30 – 35 million.

Reserves & Production Growth

Mr Davies said a 40 percent ramp up of the company's Surat Basin fields over the past six months had seen net gas production jump to 7.5 petajoules (PJ) in the half year. Electricity sales increased from 18,880MWh to 172,270MWh for the half year ending 31 December 2007 compared to the prior half year.

Continued strong production trends in the field during the half year resulted in a 2P reserves upgrade in January to 791 PJ. The company is targeting increasing 2P reserves to 1550 PJ by the end of the financial year and then to 2200 PJ by the end of calendar 2008 through an extensive exploration and appraisal program.

International Growth

Mr Davies said Arrow's half year had a strong opening with the signing of a Letter of Intent with major Chinese government owned oil and gas company PetroChina in July. A week later the company signed two more major Chinese agreements to bring its number of projects in the country to seven.

Then, in January, the company signed a Production Sharing Contract with the Vietnamese government for a large exploration area outside of Hanoi.

"Each Asian country that we're targeting has the potential to be at least as large as our Australian operation within the next seven years with gas pricing ranging from \$5 to \$10/GJ," he said.

Portfolio Growth

Arrow Energy announced today it will partner with ERM Power to jointly develop the 450 MW Braemar 2 Power Station and high pressure gas pipeline.

Arrow will take a half share in the estimated \$545 million power station to be located approximately 40km southwest of Dalby in southern Queensland. It will be adjacent to the Braemar 1 power station which was managed by ERM Power from conception through to successful construction, operation and trading.

The project is scheduled for financial close in the first half of this year and the agreement contains conditions precedent which require ERM to achieve the majority of the remaining components necessary for project financial close.

Arrow will fund its share of the investment from existing cash resources and debt facilities currently being arranged.

Mr Davies said the project was another part of the company's margin push.

"Arrow's planned investment in the Braemar 2 Power Station continues its stated and well-defined strategy of downstream investment to enhance margins on its gas sales," Mr Davies said.

"The Braemar 2 Partnership brings our total net generation capacity to 370 MW of gas fired generation thus increasing our exposure to a buoyant electricity market as well as the emerging carbon credit market.

"This investment will further cement Arrow's position as a fast-growing integrated energy company which is going further to meet Queensland's increasing energy demands," he said.

As an integral part of this transaction Arrow has signed a gas sales agreement with the Braemar 2 Partnership to supply 11.5 petajoules per year of gas over a 12 year period at a price aligned to the underlying electricity revenues.

This gas will be supplied from Arrow's Daandine and Stratheden gas fields located in close proximity to the proposed power station. Development work of the Stratheden field will start immediately.

Preparatory siteworks have commenced and construction of the power station will take approximately 18 months with first electricity sales due in the second half of 2009. Bilfinger-Berger will be the major contractor for the power station construction. Siemens Ltd is supplying the power station and is responsible for its successful commissioning.

ERM has carried a number of significant power projects to financial close over the last four years including Braemar 1 (450 MW), Kwinana (320 MW), Neerabup (335 MW) and Uranquinty (640 MW).

ENDS

For further information contact: Mr Nicholas Davies, Chief Executive Officer, Phone +61 7 3105 3400
Media release issued by Gareth Quinn, PR Coordinator, Phone +61 7 3105 3476