

Media Release

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FOR IMMEDIATE RELEASE

Arrow Energy announces 109% increase in profit after tax to \$37.2 million.

Key Points

- Solid earnings growth - pre-tax profit of \$A 46.3 million
- Margin increases secured through downstream investments in power generation
- Robust reserves and production growth
- Low operational costs sustained
- Continued growth of activity in key Asian markets
- Shell alliance to progress domestic and international development programs

Leading Australian integrated energy company Arrow Energy today announced a \$A 37.2 million after tax profit for the full year ended 30 June 2008, a 109 percent increase on the prior year. The company's earnings before interest, tax, depreciation and amortisation (EBITDA) was \$70.5 million, a 563 percent increase on the prior year.

Margin growth

Arrow Chief Executive Officer and Managing Director, Mr. Nick Davies said the company had performed strongly throughout the 2008 fiscal year on the back of its strengthening production and sustained low operational costs.

"Arrow has achieved an EBITDA margin of \$4.33 per gigajoule (GJ) up from \$1.03/GJ a year ago," Mr. Davies said.

"Much of this margin growth is due to our exposure to the downstream electricity market, through our throughput ownership of the Daandine and Townsville Power Stations, where prices have been 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 rights to dispatch power from the 230 MW Yabulu Power Station in Townsville.

Arrow also has a 50/50 partnership agreement with ERM Power to jointly develop the 450MW Braemar 2 power station near Dalby. Due for completion early next year, the project will be supplied with coal seam gas from Arrow's nearby fields and bring the company's total net electricity generation capacity to 370MW.

"Arrow's 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.

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 90 petajoules (PJ) of gas per annum to the LNG plant at prices linked to the final realized LNG off-take prices. A site has been secured at Fisherman's Landing in the Port of Gladstone and the project is on track to make its first delivery in 2011.

Reserves & Production Growth

Mr. Davies said a ramp up of the company's Surat Basin fields over the year had seen net gas production jump to 7.8 PJ, a 278 percent increase on the prior year. Moranbah's net gas production increased slightly

from 8.3 PJ to 8.4 PJ despite severe weather conditions during most of the third quarter. Electricity sales for the year increased to 615,368 MWh, 28 times our prior year sales due to the Enertrade acquisition.

Continued strong production trends in the fields during the half year resulted in a 2P net reserves upgrade in July to 1430 PJ. The company is targeting increasing 2P reserves to 2,000 PJ by the end of calendar 2008 through an extensive exploration and appraisal program.

International Growth

Mr. Davies said Arrow's international expansion plans were progressing well and that the company was realising its vision of creating the first global coal seam gas company.

"We now have an international office in Singapore and teams in China, India, Indonesia and Vietnam," he said.

"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.

Highlights of Arrow's international exploration and appraisal program were the drilling of the company's first overseas well at the Tatapani-Ramkola block in India which has an estimated gas resource of more than 2,000 PJ. Agreements were also signed with major Chinese government-owned oil and gas company PetroChina, Petro Vietnam a subsidiary of the Vietnamese government, and Indonesia's state-owned oil company Pertamina and its upstream subsidiary Pertamina EP throughout the year.

Mr. Davies continued, "We will commence our planned drilling programs in Vietnam in November, 2008 and hopefully in China before the end of 2008. This promises to be a very busy year for our International operations."

Shell alliance

Arrow's expansion plans received a major boost in June, 2008 after the company announced a major alliance with global energy giant Royal Dutch Shell.

Mr. Davies said the \$US 737 million deal was a company making event for Arrow.

"Arrow has the largest coal seam gas acreage position in eastern Australia and a growing presence in four Asian countries. Working with a leading energy company like Shell will serve to make the most of our world class assets and expertise," Mr. Davies said.

"Shell is extremely supportive of the potential for LNG development in Queensland. This transaction is a significant endorsement of and further step in the execution of our margin enhancement strategy and will facilitate Arrow's goal to connect its large onshore gas resources with high value and strongly growing international markets," he said.

Outlook

Mr. Davies said the company was projecting another record year in FY2009.

"We are well positioned to build on the firm base that we have created and the alliances that we have forged," Mr. Davies said.

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