

Media Release



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FOR IMMEDIATE RELEASE

Arrow delivers strong first half performance

Key Points

- Solid earnings growth – net profit after-tax of \$A241.3 million
- Robust reserves and production growth
- Low operational costs sustained
- Continued business development success in key Asian markets

Leading Australian integrated energy company Arrow Energy today announced a \$241.3 million net profit after tax for the half year ended 31 December 2008, a 17 fold increase over the prior half year ended 31 December 2007. The company's half year earnings before interest, tax, depreciation and amortisation (EBITDA) was \$359.2 million, a 16 fold increase on the prior half year.

The company's strong performance was underpinned by its transaction with Royal Dutch Shell which saw the oil giant pay A\$319 million during December 2008 as part payment for a 30% share of Arrow's interests in all of its Australian upstream tenements.

Excluding non-operating items which includes the Shell deal, total revenue was \$48.2 million, up 71% on the comparative prior half year.

Arrow's cash on hand at year end was \$297 million which has subsequently increased to over \$550 million since the completion of the Shell transaction earlier this month.

Result overview

Arrow Chief Executive Officer and Managing Director, Mr Nick Davies, said challenging economic conditions over the past six months made the company's first half performance particularly impressive.

"Arrow's priority for the half year has been preparing for, and managing through, the global financial downturn. That meant ensuring the completion of the Shell deal and the cash reserve that it brought with it together with sharpening the operating business by reducing costs and optimizing well performance. Combine this with Arrow's continuing push into electricity generation and the company has recorded a strong first half." Mr. Davies said.

"Our half yearly result would have been even stronger had it not been for the planned shutdown of the Townsville Power Station for routine maintenance and capacity upgrade during September and October which caused major decreases in electricity sales and gas production at our Moranbah field," he said.

"With production returned to pre-shutdown levels, we also now look forward to the completion of the Braemar 2 Power Station which will increase Arrow's exposure to a buoyant electricity market," he said.

Arrow has a half share in the 450 MW gas fired power plant which will bring the company's total net generation capacity to 375 MW when it is commissioned in May this year.

Mr Davies noted that since the global financial crisis deepened in October 2008, Arrow's share price had been relatively stable to date compared to a 20% fall for the S&P/ASX All Ordinaries Index over the same period.

"The world markets are struggling at the moment but Arrow continues to develop its business and create value for its shareholders." he said.

Reserves & Production Growth

Mr Davies said a continuing ramp up of the company's Surat Basin fields over the past six months had offset the production fall at its Moranbah field and helped net gas production climb to 9.1 petajoules (PJ) for the half year, up from 7.5 PJ a year ago. Electricity sales increased from 172,270 MWh to 344,446 MWh for the half year compared to the prior half year.

Continued focus on exploration and appraisal of our acreage during the half year resulted in a gross 2P reserves upgrade in January to 2,692 PJ. The company has a target to increase gross 2P reserves by 1,000 PJ every year going forward.

"Arrow has interests in more than 80,000km² of coal seam gas tenements and less than 10% of this acreage has been appraised," Mr Davies said.

"A review based on coal seam data gathered from extensive coal exploration and activity shows that Arrow has an estimated gross coal seam gas resource in excess of 70,000 PJ.

"Even if only one third of this resource base can be economically developed then there is sufficient stock for LNG exports of over 20 million tonnes per annum for 20 years.

"We are working hard on development plans to bring our vast reserves to a planned LNG export facility at Gladstone," he said. "The recent announcement by our alliance partner, Shell, that it is looking to develop an LNG plant on Curtis Island presents further opportunities for Arrow to develop its reserves."

Arrow aims to be Asia's number one coal seam gas player

Mr Davies was pleased to see Arrow's international business presence growing throughout energy-hungry Asia.

"Strategic joint ventures with major industry players in China, India, Indonesia and Vietnam are providing Arrow with significant exposure to strong overseas energy markets, where current gas pricing ranges from \$5 to \$10 per gigajoule (GJ) compared to around \$3/GJ in eastern Australia," Mr Davies said.

"We believe that the International business has the potential to be at least as large as our current Australian operation within the next seven years and ultimately, individual countries such as China and Indonesia have the potential to out-grow the domestic business," he added.

Arrow is eight wells into a 39-well drilling program in India and began exploration drilling in Vietnam in January in partnership with a subsidiary of PetroVietnam. The company expects to start drilling in China in a couple of weeks and in Indonesia later this year.

"We have now signed agreements for eight potential projects in China ranging from large open area exploration to coal mine degassing and are working with substantial companies such as PetroChina and Binchang Mining," he said.

Outlook for the current financial year

Speaking about the company's outlook, Mr Davies was projecting another record year in fiscal 2009.

"It is difficult in the world markets at the moment but I don't think that it will deter the company from its planned path," Mr Davies said.

“The long-term demand for energy and hence the long-term price for energy especially LNG will remain strong and we are well positioned to build on the firm base that we have created and the partnerships that we have forged,” Mr Davies said.

“We have a world-class team, an Asia-Pacific wide alliance with Shell, substantial footholds and assets in four Asian countries, a healthy financial position and are fully funded for the next two to three years. The best is yet to come,” he said.

The full year net profit before tax for Arrow is expected to be around \$440 million with the most significant item being the pre-tax gain on disposal associated with the completion of the Shell transaction.

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For further information contact:

Mr Nicholas Davies, Chief Executive Officer, Phone ++65 9655 2959
Mr Shaun Scott, Chief Executive Officer (Australia), Phone +61 7 3105 3400
Mr Stephen Bizzell, Executive Director, Phone +61 7 3105 3400
Mr Graham Yerbury, Chief Financial Officer, Phone +61 7 3105 3466

Media release issued by Gareth Quinn, PR & External Affairs Manager, Phone +61 7 3105 3476

Note: The 1P, 2P and 3P reserves estimates used in this release were compiled by Mr. John Hattner of Netherland, Sewell & Associated, Inc., Dallas, and Mr. Gregory Hueni of MHA Petroleum Consultants, Inc., Colorado, and are consistent with the definitions of proved, probable, and possible hydrocarbon reserves that appear in the Australian Stock Exchange (ASX) Listing Rules. Mr. Hattner and Mr Hueni are qualified in accordance with the requirements of ASX listing rule 5.11 and consent to the use of the reserve figures in the form and context in which they appear in this announcement. The resource information in this ASX release has been compiled by Mr Tony Knight, a full-time employee of the Company. Mr Knight is qualified in accordance with ASX listing rule 5.11 and has consented to the form and context in which this statement appears.