



## **AWE Chairman's Address to Shareholders at the 2014 Annual General Meeting**

Fellow AWE shareholders,

### **Industry Context**

2013-14 was generally a good year for investors in international businesses. The major global economies of the USA and China continued to grow and western share price indices rose strongly.

The upstream oil and gas industry thrived under relatively stable commodity prices, with the unconventional shale gas and liquids sector in the USA being a stellar performer.

The success of this sector in the USA is unleashing some powerful forces in the international energy community.

Numerous US companies are selling up their international oil and gas portfolios and redeploying capital back to their homeland. As a result, US energy production has increased rapidly, suppressing gas prices and initiating a contest for oil market share with Middle East producers.

As a consequence of this revolution in unconventionals, the USA now has arguably the lowest energy costs in the developed world. Manufacturing is booming, unemployment has fallen, GDP growth is improving, and greenhouse gas emissions have reduced (because gas is displacing coal for power generation).

The reduction in US demand for Middle East oil has also helped drive down world oil prices by 25%, with the gap between Brent and WTI pricing closing considerably.



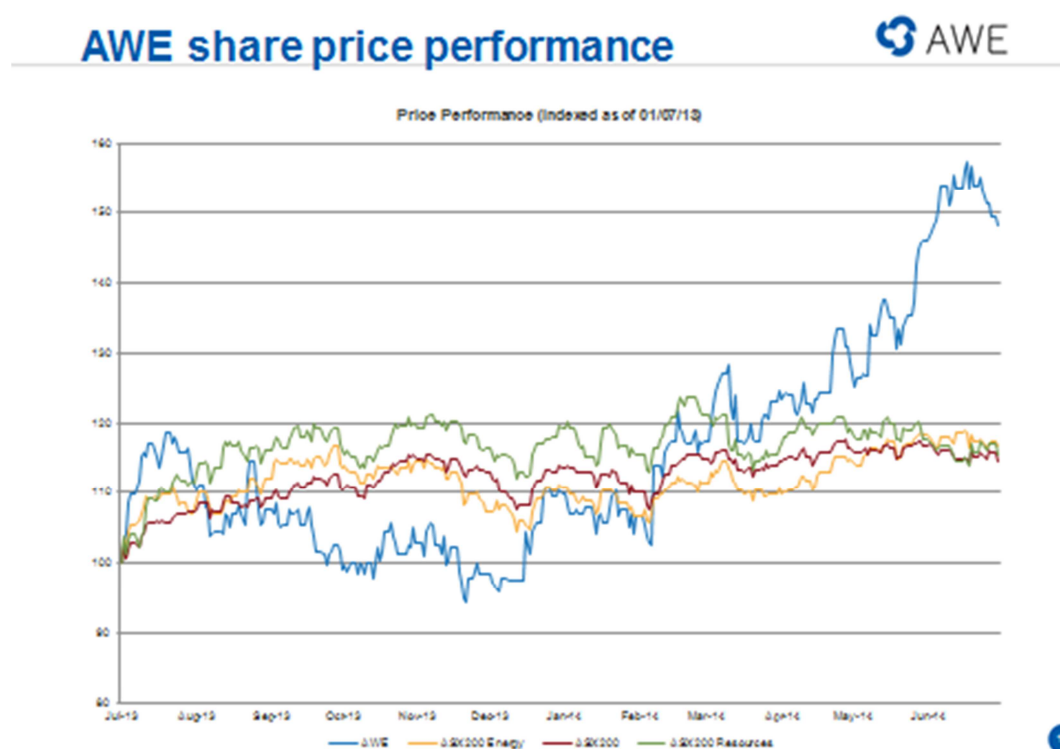
The recent fall in the oil price has had a negative impact on stocks in the energy sector. However, despite AWE's share price also declining, AWE has outperformed its peers since the end of the financial year.

In Australia, we have not as yet embraced the revolution underway globally in unconventional oil and gas production. As a result, our energy prices are increasing, our manufacturing industry is declining, unemployment is rising, GDP growth is modest, and our greenhouse gas emissions are increasing because we are burning more coal than gas for power generation.

The rise of unconventional gas production in North America may also have an unfavourable long term impact on greenfield LNG projects in Australia.

Whilst all of this sounds bad for the Australian economy, it is ironically very good for AWE's growing domestic gas portfolio. Gas prices throughout Australia are rising and our CEO Bruce Clement will have more to say about the benefit of this trend to AWE later in the meeting.

#### ***Slide 1: AWE share price performance***

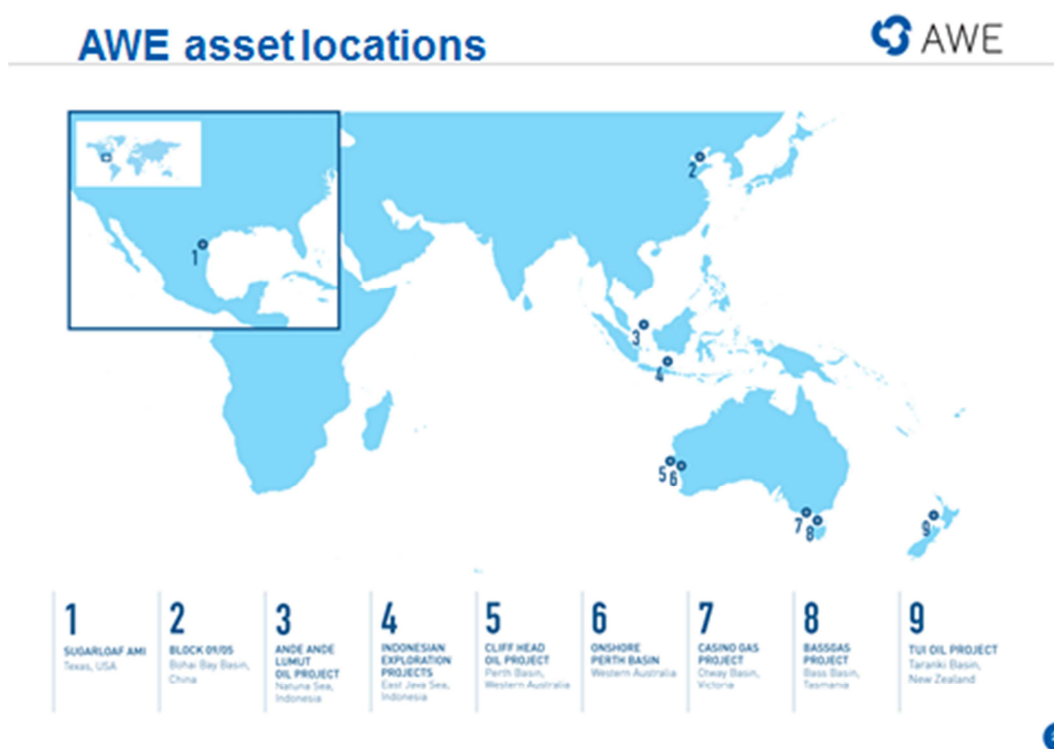


## Results

Turning now to AWE's performance for 2013-14, we are pleased to report that the Company had an excellent year. Absolute Total Shareholder Returns were 45% and our Relative Shareholder Returns (to our peer group) were in the top quartile.

It is gratifying to see some stock market recognition of the significant progress we have made over the past two years to successfully transform AWE into a dynamic business with a strong operating base and outstanding growth potential.

### *Slide 2: AWE asset locations*



The Company now holds four cornerstone assets to drive growth into the next decade:

- the Ande Ande Lumut oil project in Indonesia;
- the BassGas project offshore Tasmania;
- the Sugarloaf unconventional shale gas and condensate development in the USA; and
- the significant potential of the Senecio and Waitsia gas fields in the Perth Basin.

Each has a long term production outlook and excellent growth potential.

Later in the meeting, Bruce Clement will speak in some detail about these assets and about the Company's achievements for 2013-14.

However, let me share my brief insights into the last year's highlights:

We delivered the Company's best ever safety and environmental performance, with no lost time safety incidents, and no reportable environmental incidents;

We again met our key operational and financial targets. The company's long term financial strength is well illustrated by last year's production of 5.6 million barrels of oil equivalent, revenues of A\$328 million, and EBITDAX of A\$209 million;

We made considerable progress on our Asian strategy:

(a) FEED activities on the AAL oil project in Indonesia advanced and a decision was made to drill an appraisal well in 2015 targeting additional reserves. The sale of a 50% interest of AAL for US\$188 million during the year also reflected the ability of our technical, financial and project teams to add value from asset acquisitions;

(b) Also in Indonesia, we submitted a Plan of Development to the regulatory authorities for the Lengo gas project; and

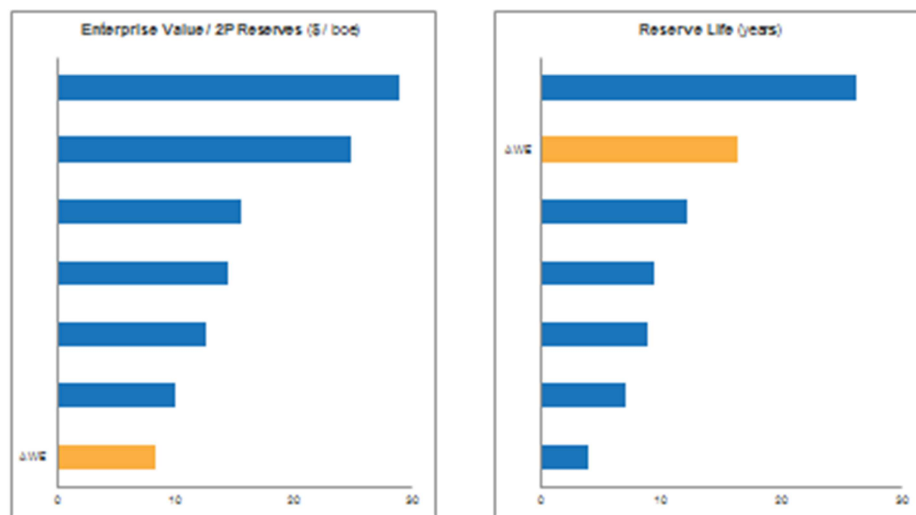
(c) We made our first small step into China, making sure we understand the nuances of the investment landscape before committing any significant capital.

However, perhaps the most important achievement since the last AGM is the significant progress made in the onshore Perth Basin, Western Australia. The recent discovery of the Waitsia gas field and the successful appraisal of the Senecio gas field have validated AWE's long-held technical view of the significant conventional and unconventional potential of our West Australian acreage.

Conventional flow testing in early calendar year 2015 will help determine if Senecio/Waitsia is the largest commercial gas field discovered onshore Western Australia in the last 50 years.

### Slide 3: Reserves/Enterprise Value relative to peers

#### AWE relative to peers



Source: Company filings, Bloomberg

Notes:

1. Peer group includes Beach Energy, Drillsearch, Horizon Oil, N2OQ, Senex Energy, and Tap Oil (not in that order)

2. EV as of 17th Nov 2014

3. Reserve Life = 2P Reserves / Unsanitized Production



The past year has also seen the company strengthen and broaden its long term reserves base, and hence its future outlook. Our 2P Reserves represents more than 16 years of production at current rates. This longevity clearly differentiates AWE from many of its peers and successful appraisal at Waitsia would further entrench AWE's leadership position.

And finally, we also advanced our portfolio of unconventional assets in the Perth Basin. Evaluations to date of the very large resources have met or exceeded expectations, providing good encouragement that commercial production may be viable.

### Strategy

The AWE board is focused on creating long-term shareholder value.

The rebalancing of our existing asset portfolio is ongoing. AWE now has meaningful equities in its four cornerstone assets, each of which will provide long term profits and growth potential. We will also continue with our cautious expansion into Asia.

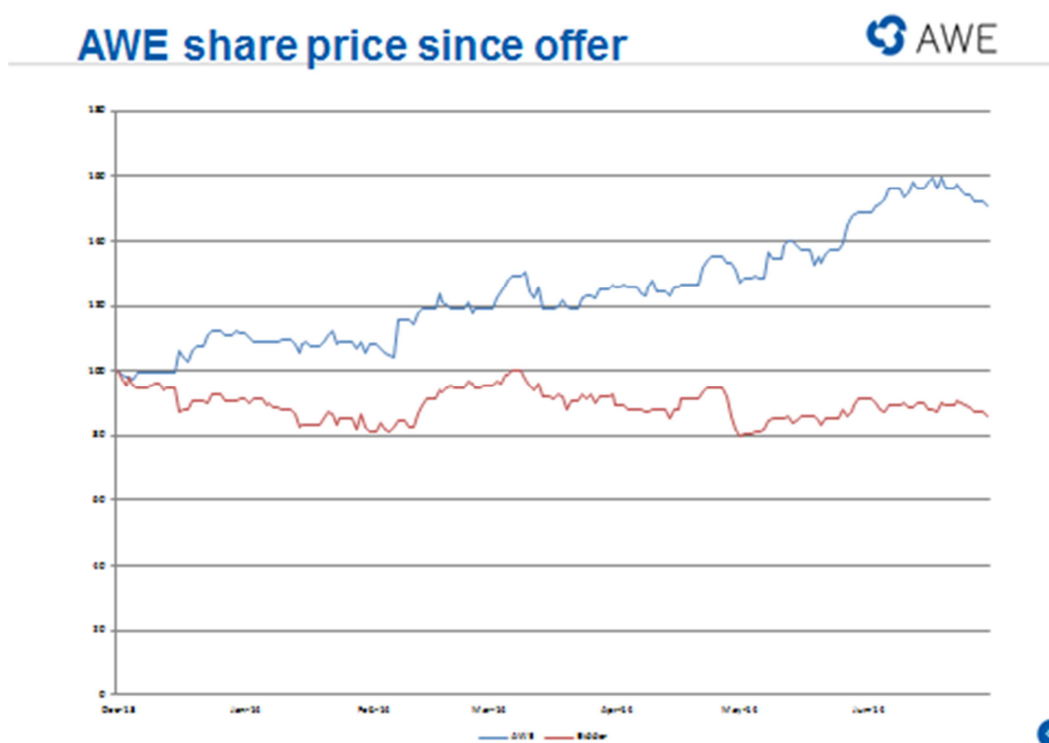
We are making good progress on our journey to become a true energy company and not just a conventional upstream oil and gas company.

Our unconventional shale gas and condensate project at Sugarloaf is already delivering positive results for shareholders and continues to surprise on the upside.

The upside in our unconventional business in the Perth Basin is very substantial and we will continue our considered approach to its appraisal and development.

We will continue to be innovative providers of energy, but only in areas where we can add real value for our shareholders.

***Slide 4: AWE Vs Bidder share price performance***



**M&A Activity**

AWE continually evaluates M&A opportunities, and in December 2013 the Company received an unsolicited approach for a merger with another ASX- listed energy company. The approach was a share-based offer and after evaluation of the proposal, your board decided against recommending the deal to shareholders. This decision was not taken lightly, but proved correct as the proposer's share price decreased 10% while AWE's increased 52% from when the proposal was made through to June 30, 2014.

## **Capital Management**

Your board continually reviews management of the Company's capital.

Our first priority is to long term shareholders and with this in mind, the future payment of dividends is regularly reviewed, taking into account the Company's future funding requirements. This entails consideration of our cash flows, our debt position and our forward capital expenditure profile.

The exciting position we find the Company in at present is the internal competition for capital from high rate of return projects.

Irrespective, the board's policy remains consistent. It will endeavour to pay dividends where it can do so in an effective and sustainable manner for shareholders.

## **Governance & Social Responsibility**

AWE continues to aspire to best practice in corporate governance and social responsibility.

We have a diverse workforce committed to the principle that being a responsible corporate citizen is fundamental to the long term success of the Company.

We aim to work proactively, honestly and transparently with all our stakeholders and make positive contributions to the communities in which we operate.

Your board recently visited the local communities of the Shires of Irwin and Cooroy in the onshore Perth Basin to listen to the local stakeholder issues and investigate ways to ensure AWE leaves the community in better shape than when it arrived.

Such efforts are in AWE's DNA, and shareholders can be proud that last year AWE received the Australian Council of Superannuation Investors' highest level of achievement available to ASX listed companies with respect to reporting on its sustainability practices.

## **People and Remuneration**

AWE's work force is highly skilled and dedicated to delivering superior returns for shareholders.

On behalf of shareholders, I thank Bruce Clement and his team for their hard work and tireless efforts over the last year.

Our employees in Sydney, Perth, New Plymouth and Jakarta have remained focused and disciplined in the face of numerous challenges. After a very successful 2013-14 financial year that delivered superior Total Shareholder Returns, management were rewarded appropriately.

It is always a delicate balance between fair remuneration and the risk of losing key management personnel, so it is pleasing that the incentive-based system has worked as designed over the last few years.

## **Outlook**

On a personal note, it is a long time since I have been so excited about the Company's future prospects.

There will no doubt be some setbacks on our journey, but the quality and depth of our asset portfolio is now positioned nicely to deliver long-term superior returns for shareholders.

Our cornerstone assets in Australia, Indonesia and the USA will continue to gather momentum over the coming year.

We are particularly excited about the Perth Basin and the potential of the Waitsia gas discovery. The conventional flow testing and appraisal drilling is something we encourage shareholders to watch with interest. High gas flow rates would be a strong indicator of the potential for significant commercial success. Drilling of the nearby Irwin exploration prospect early in calendar year 2015 should also be interesting.

In Indonesia we will be working towards a Final Investment Decision for development of the Ande Ande Lumut oil field. We will also be drilling an appraisal well to further evaluate the potential for additional oil reserves from a deeper reservoir in the field.

At BassGas, work will also commence before the end of this year on the next stage of the Mid-Life Enhancement project which aims to significantly extend the field life. While at Sugarloaf drilling and production should reach record levels.

Your board remains committed to generating shareholder value and we are still focused on reducing the gap between the current modest share price and the net asset value of the Company.



Last year I said “we were well on the way to transforming the Company, and early initiatives were beginning to deliver on their promises”.

These initiatives have progressed positively over the last year and your Board now looks to the future with considerable optimism.

Bruce J. Phillips  
Chairman  
AWE Limited

For information please see our website [www.awexplore.com](http://www.awexplore.com) or contact:

**Investor Relations**

Matthew Sullivan  
AWE Limited  
02 8912 8022  
[matthew.sullivan@awexplore.com](mailto:matthew.sullivan@awexplore.com)

**Media Enquiries**

Ian Howarth  
Collins St Media  
03 9223 2465  
[ian@collinsstreetmedia.com.au](mailto:ian@collinsstreetmedia.com.au)

**About AWE Limited.**

AWE Limited is an Australian based energy company focused on upstream oil and gas and related energy opportunities. Established in 1997 and listed on the ASX, the Company is headquartered in Sydney with international operating offices in New Zealand and Indonesia. AWE has built a substantial portfolio of production, development and exploration assets in Australia, New Zealand, USA, Indonesia and China, including four cornerstone growth assets: the Sugarloaf unconventional shale play in the USA, the Ande Ande Lumut oil project in Indonesia, the BassGas project offshore Victoria, and the Waitsia gas field in the onshore Perth Basin, Western Australia. With its strong financial and technical base, AWE will continue to pursue exploration, appraisal and development growth opportunities in Australasia and Asia.

**ENDS**