



10 April 2013

## **ASX RELEASE**

# 2012 ANNUAL REPORT AND SUSTAINABILITY REPORT

Attached are ROC's 2012 Annual Report and Sustainability Report. Copies of these documents are available on ROC's website at <http://www.rocoil.com.au/Investor-Centre/Reports>.

Online versions of these reports can also be viewed at <http://ar2012.rocoil.com.au>.

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Annual Report 2012



# FOCUS + GROWTH



## ABOUT ROC

Roc Oil Company Limited ('ROC') is one of Australia's leading independent upstream oil and gas companies, with a presence in China, South East Asia and Australia.

The Company operates across the full range of upstream business activities, from exploration and appraisal to development, and production delivery.

As an operator with strong industry relationships, including National Oil Companies, ROC has a unique set of competitive advantages – a distinct industry position for a company of its size. There are few other Australian upstream companies of a similar size capable of delivering this full suite of services.

Incorporated in Australia, ROC listed on the Australian Securities Exchange ('ASX') in 1999. The Company has a workforce of approximately 180, located in offices in China, Australia and Malaysia.



**OUR VISION** is to deliver profitable implementation of smaller field developments, mature field re-developments and near term exploration projects in our focus regions. ROC aims to be recognised as a partner of choice.

ROC's growth strategy is to capitalise on our existing relationships, regional presence and expertise to grow the development and exploration portfolio.

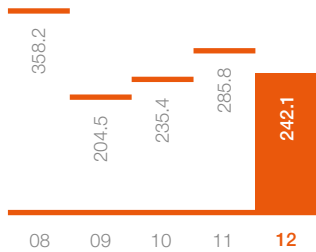
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2012 was a watershed year for ROC. During the year, ROC achieved the best profit result in the Company's history; saw exploration success in China; made tangible progress in Malaysia; and unlocked further value from the business through better cost management. Pleasingly, this was recognised by the market with the share price appreciating 73% during the year, delivering improved shareholder value.

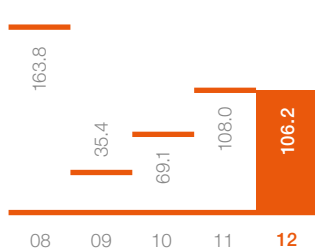
At the end of the year, the financial health of the business was characterised by the strongest cash position for many years. All projects are fully funded, with significant capacity to pursue the many growth opportunities within reach.

**SALES REVENUE** US\$242m



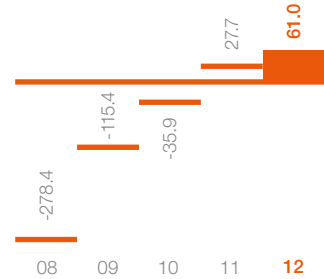
Lower production led to lower sales volumes

**TRADING PROFIT** US\$106m



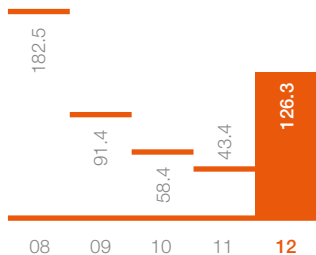
Lower costs offset decline in sales

**REPORTED NET PROFIT/(LOSS)** US\$61m



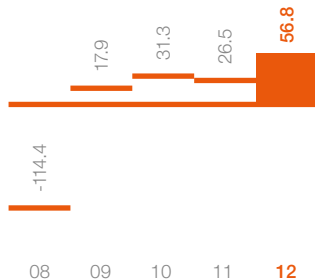
Up 120% from 2011

**NET OPERATING CASH FLOW** US\$126m



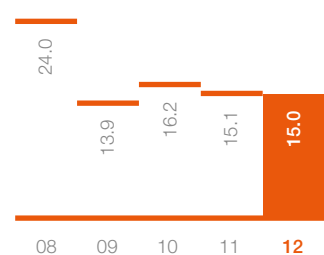
Up 191% from 2011 – driven by significant decrease in derivative payments

**NET CASH/(DEBT)** US\$57m



Capacity to invest with undrawn debt facility of US\$91m

**REMAINING 2P RESERVES** 15MMBOE



Reserves replacement of 100% of production boosted by discoveries

# 2012 HIGHLIGHTS

Highlights for 2012 included a strong operational performance, underpinned by sound cost management, the delivery of targeted production levels and a strong net profit after tax – our second consecutive year of profit.

**1ST QUARTER**

**China**

- > Beibu Environmental Impact Assessment approval
- > Onshore platform fabrication



**2ND QUARTER**

**China**

- > Awarded new exploration block 09/05 (Bohai Bay, offshore China)
- > Beibu Gulf offshore jacket installation



**Malaysia**

- > Conversion of purchased vessel to an Early Production Vessel commenced

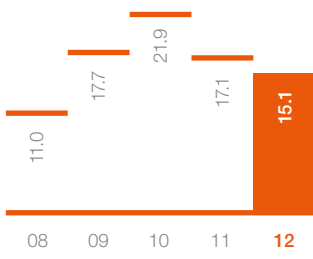


**Malaysia**

- > Project finance of US\$162 million secured for Balai Cluster Risk Service Contract pre-development phase
- > Installation of Bentara and Balai well head platforms

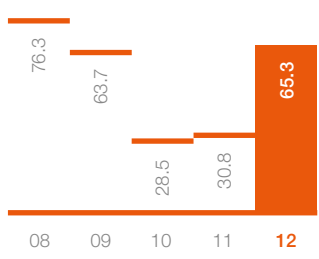


**PRODUCTION COSTS** US\$15/BBL



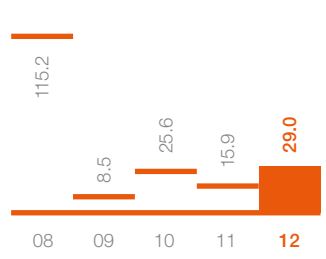
Effective fiscal discipline with production costs declining 11% from 2011

**DEVELOPMENT EXPENDITURE INCURRED** US\$65m



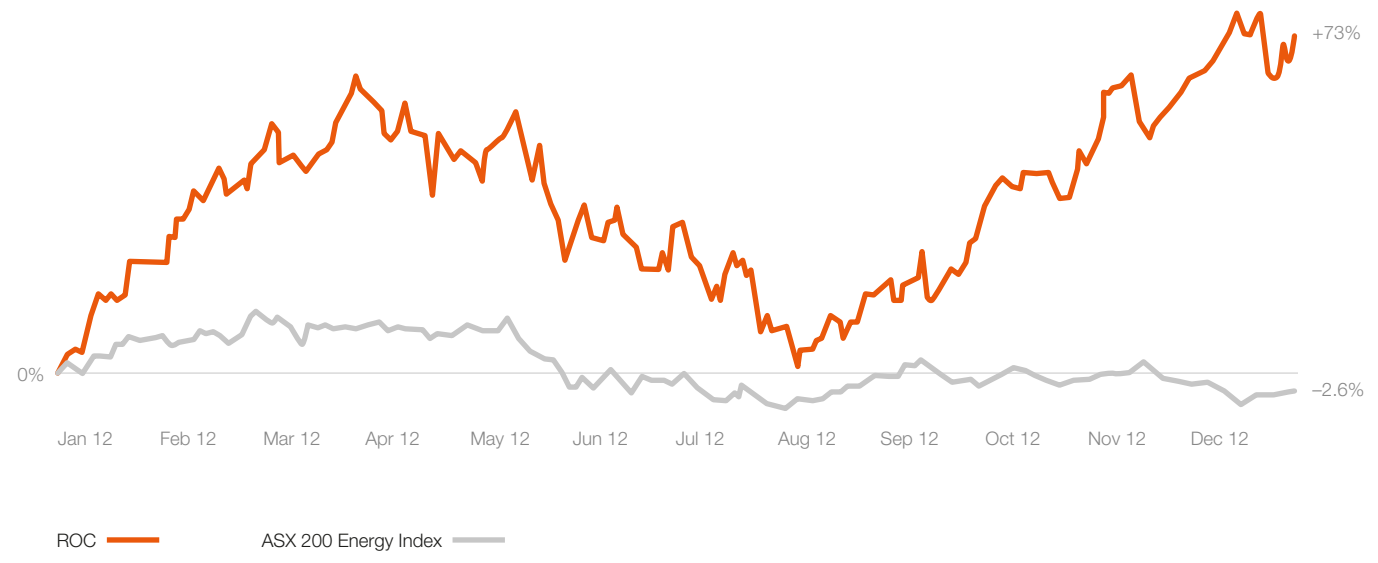
Driven by Beibu Gulf project development

**EXPLORATION EXPENDITURE INCURRED** US\$29m



Increased exploration in Beibu Gulf resulting in three discoveries

**RELATIVE SHARE PRICE PERFORMANCE**



Solid progress on the Beibu Gulf development project, successful exploration and appraisal drilling activities at Beibu together with improved recovery from existing fields contributed to a reserve replacement of 100%.

**3RD QUARTER**

**China**

- > Preparation for exploration drilling in Beibu Gulf
- > Development activities continued



**Malaysia**

- > Pre-development appraisal drilling commenced



**4TH QUARTER**

**China**

- > Beibu Gulf development project receives NDRC approval; Beibu Gulf exploration drilling commences
- > Oil discoveries in three Beibu Gulf wells



**Malaysia**

- > Installation of Spaoh and West Acis well head platforms
- > Successful drilling and testing of the Bentara-2 well
- > Commencement of drilling of the Balai-2 well





**Directors (L-R)** Alan Linn *Chief Executive Officer and Executive Director*, Chris Hodge *Non-Executive Director*, Robert Leon *Non-Executive Director*, Graham Mulligan *Non-Executive Director*, Mike Harding *Non-Executive Director*, Nigel Hartley *Non-Executive Director*

ROC made further good progress on a number of fronts in the 2012 year. The net profit result and strong liquidity at year end were delivered during a period of significant operational activity and continuing implementation of our stated strategy. At the financial performance level, key outcomes can be summarised:

SALES REVENUE **US\$242 million**

NET PROFIT AFTER TAX **US\$61 million**

PRODUCTION **6,445 BOEPD**

NET OPERATING CASH FLOW **US\$126 million**



# CHAIRMAN'S REPORT

**Andrew Love** Chairman



Importantly, safety features prominently in everything we do. The continued evolution of best practice Health, Safety & Environment ('HSE') at ROC produced a number of new initiatives across the business in 2012. ROC continues to achieve HSE results better than industry averages. Our approach is designed to work towards the safest possible workplace and environment for our teams and surrounding communities.

We have had a positive result on reserve replacement, with 100% reserve replacement in the current year being achieved through a mix of further discoveries and enhancements at existing fields.

Geographically, China is a major focus of our business, contributing 65% of total Company revenue for 2012. This is forecast to grow in 2013 as the Beibu field comes into production in 2013.

We are underpinning our China business with exploration opportunities following the award

This is a critical part of our stated strategy going forward and successful execution together with additional opportunities in this region will be key to the future of the Malaysian operations.

This Annual Report outlines in more detail the level and scope of activity across the Group in 2012 and gives a sense of direction for the future and our team. Encouragingly, the results to date of this strategy and direction have resulted in a re-rating in the share price from the low point reached in December 2011.

Shareholders should be aware that we are part way through the execution phase of the Board-endorsed strategy to improve ROC's fortunes. This does take time and the results to date whilst pleasing require much to be done in future years.

The Board renewal process continued during 2012, with the resignation of

At the Company's 2012 AGM, the Company received votes against its Remuneration Report greater than 25% of the votes cast. At the time of this 'first strike', the Company's corporate and remuneration strategies were already in place for 2012. We have engaged in a detailed way with various stakeholders since then. The Remuneration Committee, on behalf of the Board, has engaged remuneration consultant Aon Hewitt to undertake a comprehensive compensation review across the organisation globally. During 2013, the Board proposes to respond to the recommendations of Aon Hewitt and make changes as required.

To the CEO and management, we thank you for your efforts and diligence in 2012 and look forward to another productive year in what will be a key turning point for ROC.



of the 09/05 Block exploration acreage in Bohai Bay with our partner CNOOC.

Another feature of our strategic direction in recent years was the Malaysian country entry.

Malaysia will feature more prominently in future, with the pre-development activities in the Balai Cluster region progressing in the 2012 year and another busy year predicted for 2013.

For this project, 2013 will be crucial as a number of key milestones will have to be achieved which include:

- > completion of pre-development phase;
- > agreement with partners as to economic viability; and
- > submission by the joint operating company, BC Petroleum (ROC 48%), of the field development plan.

founding Directors Will Jephcott and Sid Jansma, Jr. As founding Directors of ROC, both Will and Sid's contributions were immense. On behalf of the Company, I thank them both for their years of support as Directors and wish them well.

Joining the Board during the year were Mike Harding and Nigel Hartley. Mike has 25 years of international oil and gas industry experience with BP and is a former Vice-Chairman and council member of APPEA. Nigel is a chartered accountant with 25 years of oil and gas industry experience, including 20 years in various roles at Oil Search Ltd. Both Mike and Nigel bring valuable experience and knowledge to the Board and are active participants.

To shareholders, on behalf of the Board we value your support. We are committed as a Board and management to continue to improve shareholder returns; part of this improvement we have seen recently and since I last reported to you. We are seeking to ensure this continues in the future.



# CEO's REPORT

## Q&A with Alan Linn



**Alan Linn** Chief Executive Officer  
and Executive Director

### What were the highlights for the year?

2012 was, for me, underpinned by strong operational and cost management performance across our asset base. We had a number of exciting opportunities which had to be moved from the drawing board to the drill bit. Operations are always fraught with challenges and the exploration work programme at Beibu, which was integrated within the CNOOC project activity and operated by ROC, went extremely well. Additionally, we set up BC Petroleum with our partners in August 2011 when we were awarded the Balai Cluster Risk Service Contract ('RSC'). Building a company with the operational capacity to install four platforms, drill the first two appraisal wells and be 80% through a vessel conversion (basically turning a tanker into a mini FPSO) within 16 months was an outstanding achievement in anyone's book. We also delivered production within guidance from our base operational load in Zhao Dong and Cliff Head with no material safety or environmental incidents across the business. As a result of our success in 2012, ROC is now positioned to maintain a strong operational performance and to actively pursue value growth opportunities within our core regions. I think 2013 is showing the potential to be another standout year for the Group.

### Are there areas where ROC can continue to improve performance?

I think we had an overly aggressive expectation of the pace with which we can bring new regional value growth opportunities into the business. Australia is becoming an increasingly expensive place to secure new opportunities and it is important that we see good value from transactions, so we're having to look harder at everything and this takes time. In South East Asia and China, we see considerable potential for growth and believe that the ROC brand now has a strong resonance within the region. That said, both China and Malaysia are working through a process to enhance the way they approach the development of domestic oil and this invariably means that crystallising opportunities takes a bit of time and effort on both sides.

### ROC's re-branding and core region focus began in late 2010 – do you believe this is still the right path to take?

In a nutshell, yes! We haven't arrived at our current position in the market by accident; it's been hard work turning the Company around and the current management team is

committed in offering a low risk investment proposition with exploration upside in proven but under exploited basins which can generate value for the Company and the region for years to come. We 'fly under the radar' of most of the international and state-owned resource companies and focus upon exploiting hydrocarbon resources within our core area which, whilst important for the state companies, is challenging for them to target because of their limited resources. We have always worked to develop lasting relationships with our partners and are open and honest about what we can do. As the oil price increases and the value of domestic production continues to grow, then a company like ROC, which can offer low cost operational solutions for appraising, exploiting and exploring smaller fields, is an attractive partnership proposition. Let me provide a couple of examples to help explain the way we operate.

ROC initiated a 20 year business plan for our China business in consultation with our local partners. We are now considerably more aligned with our partners' growth plans and find that the combination of our strong relationships and the plan is providing a growth catalyst for our China business.

Rationalising our asset portfolio has delivered a more focused and efficient business. This focus has encouraged a concentration of resources, both technical and financial, to maximise our niche operational platform and supports ROC actively pursuing similar opportunities and leveraging our presence in core regions. ROC is a niche operator and low risk explorer and the opportunities which attract us typically benefit from innovative operational solutions. By targeting risk managed contracts adjacent to established infrastructure, ROC has the potential to generate low risk consistent returns for our shareholders.

### How is the strategic investment in Malaysia progressing?

We are making good progress with our Malaysian growth strategy. The primary goal of showcasing our skills as a niche operator of small fields is making good progress through the new RSC in Malaysia. The Balai Cluster RSC is delivering on its pre-development objectives, with the first two appraisal wells confirming the presence of hydrocarbons. Four well head platforms are now installed; the Early Production Vessel conversion was mechanically complete at end of the year and will come into the fields, following the cessation of the monsoon weather, to commence an extended well testing programme. We are very encouraged by both well results and operational performance to date.

In addition to the RSC projects, we are actively pursuing a series of more conventional opportunities in Malaysia. Our aim is to concentrate upon one core prospective geographic area, building a detailed understanding of the geology and petroleum potential and then building a linked portfolio of low risk development and exploration assets capable of early production and cash flow. We have now had time to establish a solid working relationship with PETRONAS and Petronas Carigali Sdn Bhd ('PCSB') and we see this as a potential key differentiator as we work to build our presence in Malaysia.

### What do you believe sets ROC apart from other small-mid cap oil and gas companies in Australia?

Primarily, ROC is a safe full cycle offshore operator with exploration and production assets within the ASEAN/China region. ROC operates 22,500 BOPD on behalf of joint venture partners.

China contributed 68% of net production to the Group in 2012, and this is expected increase to approximately 80% in 2013 with the introduction of Beibu. The ROC Beijing office is our largest, managing approximately 80 staff onshore and over 150 offshore. Malaysia has approximately 90 staff in both ROC and through our joint venture operating company, BC Petroleum. We have 35 people in our head office looking after the Group and Australian operations; there is also a small office in Perth.

We aim for a high proportion of local employees within our business and have built a talented pool of personnel in our regional offices led by capable and experienced management. Our people possess skill sets which are valued within the industry and typically include global operating experience. The regional positioning also helps us overcome a number of the challenges associated with recruiting personnel into the Australian upstream sector. China and South East

Asia, mainly Malaysia, provided the majority of ROC's growth opportunities in 2012 and with ongoing success, we expect to continue growing the business during 2013.

### Why is HSE such an important part of ROC's operations?

As an operator, the safety of our personnel and facilities is of paramount importance. We have seen the impact of major incidents across the industry in recent years and it is absolutely essential that we don't take unnecessary risks with our facilities. Since 2010, ROC has been progressively building our focus on Asset Integrity Management and Process Safety. All ROC operations and projects must develop and fully implement asset integrity controls throughout project lifecycles. Such asset integrity management has many benefits for ROC; major safety and environmental incidents are prevented and our workers and neighbours are kept safe. The life and reliability of our equipment are improved, resulting in economic benefits through steady, reliable production and lower operating costs; key parameters when aiming to maximise value from smaller fields. We are confident that this approach gives us an advantage over our peers and positions us to be a 'partner of choice' for governments and joint venture companies, as well as a preferred workplace for current and prospective employees.

### What does sustainability really mean to ROC?

For ROC, sustainability is a cornerstone investment in the delivery of long term shareholder value. Our sustainability framework guides and supports ethical behaviour within the Company and supports the overall safety and wellbeing of our employees. We maintain the highest standard of asset integrity and always aim to minimise our impact on the environment. Finally, we contribute to the social, environmental and economic development of the communities in which we operate. The central theme to our investment in

these communities is education, ensuring, where possible, a long term legacy from our contribution. This is disclosed in detail in our Sustainability Report.

### What do you see as key deliverables during 2013 to build upon the Company's recent success?

The key deliverables for the year include: continuing to build upon the quality of our existing assets and deliver production and costs safely and within guidance; the finalisation of the Beibu development on budget and on time, which includes the delivery of first oil in 1Q13 progressing to plateau production and accelerating production from the recent exploration discoveries during 2H13; bringing complementary projects into the Group within our target regions to support value growth; and continue building long term profitability for our shareholders.

### What will the business look like in five years time?

ROC aspires to be a consistent generator of better-than-average shareholder return, through our regional value growth strategy.

ROC will have a balanced portfolio of assets, delivering strong revenue and free cash flow. We aim to build our operating reputation, becoming an 'operator of choice' for partners in the region and our opportunity set will include low risk exploration, appraisal, development and production – giving us a distinct competitive advantage over our peer group. We will continue to leverage our operating advantage, targeting opportunities primarily within our existing core regions (China, South East Asia and Australia).

ROC is primarily a conventional oil and gas offshore business; however, we are beginning to see opportunities to progressively broaden our asset base into onshore conventional and unconventional opportunities within our core regions.



**Executive Management Team (L-R)**

Ron Morris President, Roc Oil (China) Company, Leanne Nolan General Counsel and Company Secretary, Pierre Eliet General Manager – Exploration, Geoscience & Business Development, Alan Linn Chief Executive Officer, Rolf Stork Chief Operating Officer, Anthony Neilson Chief Financial Officer

# STRATEGIC OVERVIEW

Strategic themes for ROC include focus upon generating value creation and growth opportunities, the delivery of operational excellence and business efficiency.

# FOCUS + GROWTH

## Deliver existing business

Focus on existing assets and optimise production performance

## Maximise near-field opportunities

Focus on delivery of opportunities near to existing fields and basins

## Develop opportunities in new ventures

Utilise operator and current skill sets to deliver new opportunities in focus regions

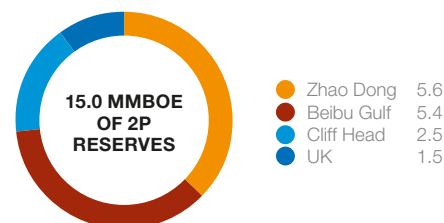
## Grow through exploration and acquisitions

Selectively identify and pursue value growth assets

## 2013 FOCUS

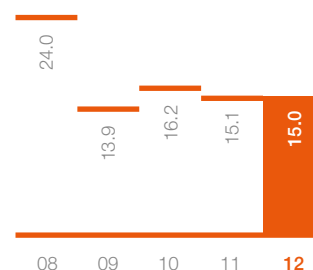
- > Continuing reserve replacement and growth
- > Dedication to HSE and Asset Integrity Management
- > Optimise production performance from existing assets
- > Leverage proven capabilities and existing relationships to secure new opportunities within our focus regions
- > Assess opportunities with strategic fit and optimise capital deployment
- > Maintain cost and fiscal discipline to support profitability and value of the existing business
- > Exploration programme focusing upon opportunities near existing assets and aligned with our operational and technical capabilities

# SUMMARY OF RESERVES & RESOURCES

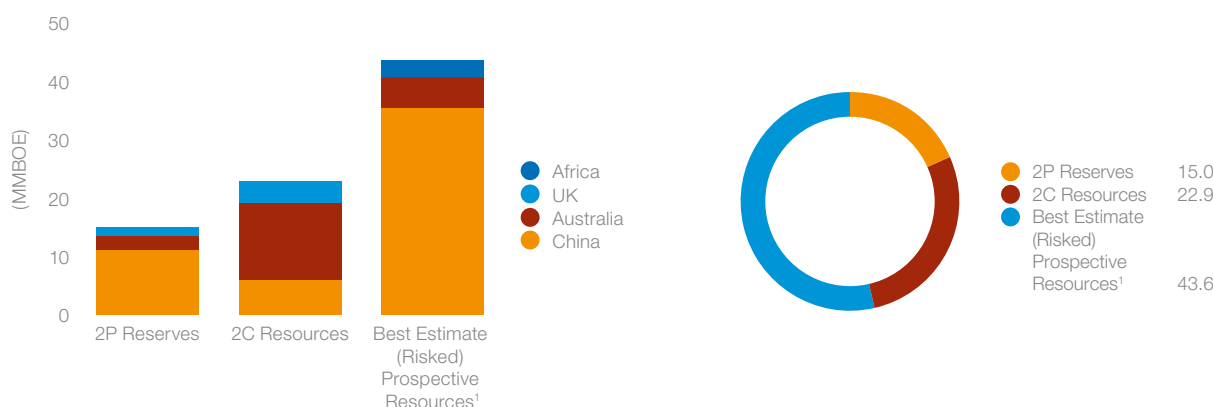


- > 100% reserve replacement achieved in 2012 (2.4 MMBOE) attributable to successful Beibu Gulf exploration drilling and improved recovery from existing fields
- > 22.9 MMBOE of contingent (2C) and 43.6 MMBOE of best estimate (risked) prospective resources<sup>1</sup>
- > Excludes resources attributable to Balai Cluster RSC and is subject to agreement on economic viability & approved FDP

REMAINING 2P RESERVES (MMBOE)



	2012 (MMBOE)
Proved plus probable reserves (2P)	15.0
Contingent proved plus probable resources (2C)	22.9
Best estimate (risked) prospective resources <sup>1</sup>	43.6
Proved plus probable plus possible reserves (3P)	20.6
Annual production	2.4
Reserves replacement ratio	100%



The reserve and resource information above is based on information compiled by Bill Billingsley (Chief Reservoir Engineer). Mr Billingsley BSc (Chem), MSc (Petroleum Engineering), DIC (Imperial College), who is a member of the Society of Petroleum Engineers, has more than 17 years relevant experience within the industry and consents to the information in the form and context in which it appears.

2P Reserves are 'Working Interest' and contain approximately 9% which is given to host governments, subject to oil price and costs.

1. The estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation are required to determine the existence of a significant quantity of potentially moveable hydrocarbons.

# SUMMARY OF OPERATIONS

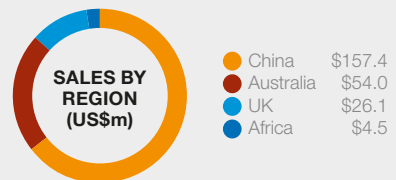
ROC's core production assets performed reliably throughout the year delivering full year production in line with 2012 guidance, ensuring good cash flow from operations and underpinning the capacity of the business to fund growth projects. The reliable performance was attributable to the HSE and asset integrity management practices in place, together with the strong and dedicated teams working across the regions of our business.



Total working interest production for the year was 2.4 MMBOE which was down compared to 2011 (2.7 MMBOE), largely due to several planned and unplanned outages at our non-operated UK assets.

Production rates for the Company are expected to increase in 2013 with the Beibu Gulf asset coming onstream from the first quarter of 2013. Lower production also impacted oil sales revenue which totalled US\$242 million (2011: US\$286 million).

Financial highlights for 2012 include a record net profit after tax of US\$61 million, a strong cash result of US\$57 million, coming from a trading profit of US\$106 million (2011: US\$108 million) which was consistent with the prior year despite lower revenue. The delivery of quality earnings and strategic objectives will continue to be a priority in 2013, supporting the development of an increasing reserve and resource base.



**AUSTRALIA**

ROC has two operated assets in Australia – Cliff Head (Western Australia) and Basker-Manta-Gummy ('BMG') Bass Strait.

Production from the Cliff Head asset reached 0.48 MMBBL, up 15% from last year, mostly driven by higher availability of the asset during 2012 compared to 2011. An improved average oil price also boosted oil sales revenue up 23% on last year to US\$54.0 million. Cliff Head contributed 21% of overall oil production and 22% of total revenue to the Group.

Cliff Head is an example of our expertise in delivering full project cycle value. Following successful exploration activities in 2001 and subsequent appraisal and development until 2006 when production commenced, Cliff Head has reliably

delivered production for ROC and its partners. During 2012, a conversion of the CH-9 well to a water injection well was completed, increasing withdrawal production rates and reserve potential. The Cliff Head operations reached 81 months without a lost time injury in November 2012.

BMG completed non-production phase activities in early 2012, including the offshore deconstruct engineering and well suspension, the removal of the Crystal Ocean's detachable turret mooring from the field and the trenching of a subsea flowline in the field. These activities were successfully undertaken without a significant incident. The evaluation of options for a Phase-2 gas development continues.

ROC holds a 37.5% interest in BMG, following CIECO Exploration and Production (Australia) Pty Ltd withdrawal from the BMG joint venture, effective 31 December 2012.

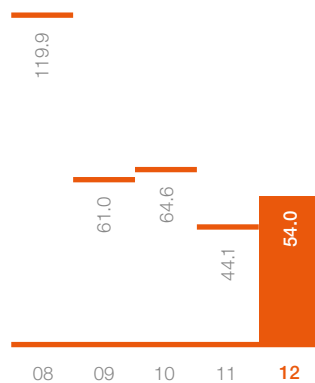
**2013 focus**

Cliff Head production rates are expected to continue at similar levels to 2012. We will continue to leverage our expertise and presence in Western Australia by assessing near-field exploration or appraisal activities around Cliff Head.

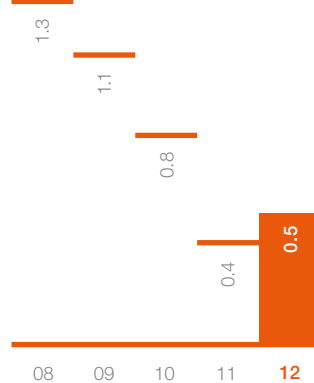
ROC will continue to pursue the farm-down or divestment of its BMG asset, while continuing to evaluate options around the asset given the improving east coast gas market pricing.



**AUSTRALIA REVENUE (US\$m)**



**AUSTRALIA PRODUCTION (MMBBL)**



**CHINA**

Our China business continues to be an integral part of ROC's growth strategy. ROC's operates the Zhao Dong oil fields in offshore Bohai Bay and is playing an active role in the Beibu Gulf development. A highlight for the year included a 2P reserve replacement of 125% of ROC's current year production from China. This is the second consecutive year with a reserve upgrade, resulting from ongoing development projects including field enhancements and accessing extended reach areas of the Zhao Dong fields together with successful exploration and development activity at the Beibu Gulf project.

**Production – Zhao Dong Oil Fields, Bohai Bay**

Production from the Zhao Dong asset was 1.6 MMBOE for the year (2011: 1.7 MMBOE), contributing 68% of total ROC production for 2012. This is the ninth year that the Zhao Dong asset has produced its targeted production in excess of one million tonnes per annum and has been recognised by PetroChina for its outstanding performance. Revenue from Zhao Dong in 2012 totalled US\$157.4 million, production costs were controlled to US\$9.3/BBL leading to a trading profit of US\$57.5 million.

The ROC operated Zhao Dong oil fields achieved two years lost time incident free in December.

Ongoing asset integrity management ensured the reliable performance from the Zhao Dong asset and included power cable upgrades to improve reliability of power supply and upgrades to water handling facilities capacity. Oil and gas was delivered via pipeline to shore during 2012, ensuring efficient and reliable delivery of the product to the Dagang refinery, mitigating the impact of extreme weather conditions. The recent capital upgrades to the Zhao Dong infrastructure has created a production hub and will be pivotal to our long term growth aspirations in the Bohai Bay area.

**Development – Beibu Gulf**

The Beibu Gulf development project continued on schedule and within budget, as activities ramped up during the year. The successful completion of the exploration/appraisal campaign in the Beibu Gulf saw three discoveries which delivered incremental reserves to ROC of 0.7 MMBBLS. The development drilling programme is now underway with first oil expected to be delivered by end of the first quarter, 2013. The project is expected to reach plateau production in late 2013. Plateau production levels are expected to be extended as new reserves are incorporated into the original development plan.

**Exploration – Block 09/05, Bohai Bay**

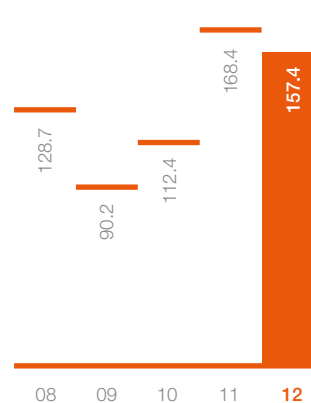
ROC was awarded a prospective 335 km<sup>2</sup> exploration Block 09/05 with CNOOC for a 100% operated interest in Bohai Bay in May. The Block is close to our existing ROC operated Zhao Dong infrastructure.

ROC considers this new Block as having significant potential. Geotechnical work is in progress with planned 3D seismic acquisition and two exploration wells expected over the next three years. A farm-out process is underway to manage ROC's equity position in this Block.

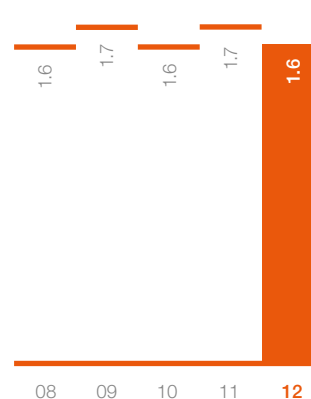
**2013 focus**

The 2013 outlook is positive with increasing production levels expected as the Beibu Gulf project achieves plateau production in late 2013. Further field enhancements and drilling in the Zhao Dong fields will also contribute to production levels. Commencement of seismic acquisition and geotechnical work on the new 09/05 Block is an important element of our regional growth plan in the Bohai Bay region. ROC will continue to pursue new opportunities in China and build upon our strong portfolio leveraging our existing footprint and relationships.

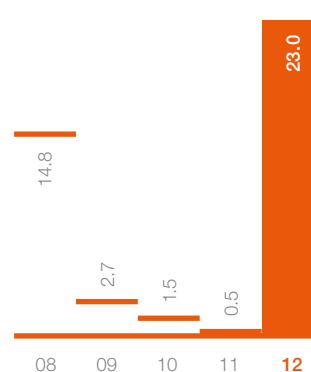
**CHINA REVENUE (US\$m)**



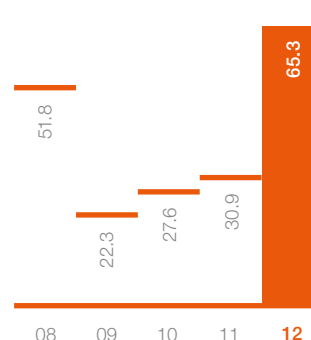
**CHINA PRODUCTION (MMBBL)**



**CHINA EXPLORATION EXPENDITURE INCURRED (US\$m)**



**CHINA DEVELOPMENT EXPENDITURE INCURRED (US\$m)**



## Beibu Gulf development and exploration activity

Platform jacket fabrication



Platform jacket loaded onto barge in preparation for moving to location



Platform jacket at location



Platform living quarters loaded for transportation to location



Platform top side installation





## SOUTH EAST ASIA

The Company's focus on South East Asia as part of the growth strategy gathered momentum during the year with BCP (ROC 48% equity share) commencing pre-development activities under the Balai Cluster RSC.

The pre-development activities included the conversion of the Early Production Vessel, onshore fabrication and offshore installation of four well head platforms, and the commencement of appraisal drilling activities in September, with hydrocarbons confirmed at both the Bentara-2 and Balai-2 fields. The RSC also secured project financing (debt facility for US\$162 million) for the pre-development phase of the RSC in May.

ROC's Kuala Lumpur regional office continued to grow and is playing a central role for business development in the South East Asia region. Dr Pierre Eliet joined ROC in September. Based in Kuala Lumpur, Pierre will oversee the business development and exploration activities across the targeted regional footprint.

### 2013 focus

The strong relationships with our BCP equity partners (PCSB and DIALOG) position both ROC and BCP well in the pursuit of other opportunities within Malaysia and adjacent regions. Our operational experience and technical capabilities help unlock value through the efficient development of smaller or marginal fields, including mature field rejuvenation projects, shallow water exploration and other RSC/PSC opportunities in Malaysia.

Completing the BCP RSC pre-development activities during 2013 is an important step in progressing the project towards commercial assessment and potential submission of a field development plan, subject to agreement on economic viability.

ROC continues pursuing new Greenfield and Brownfield opportunities outside Malaysia in South East Asia with a focus on building long term reserves.

## BC Petroleum, Malaysia – Balai Cluster RSC progress

Preparing to load well head platform onto barge for transportation



Appraisal drilling



Conversion of Early Production Vessel



## UNITED KINGDOM

ROC has non-operated interests in the Blane oil field and the Enoch oil and gas field, offshore North Sea.

The Blane oil field contributed 11% of total production for ROC. Production from the Blane oil field was 47% down on 2011 with 0.23 MMBBL produced. The reduction from 2011 was attributable to several planned and unplanned shutdowns during the year. Revenue was also impacted, with sales revenue decreasing by 61% to US\$22 million. In March, a major upgrade to the Ula host platform safety systems made gas lift unavailable for an extended period. Additionally, production from the Blane field was shut in from early September to late November following a safety

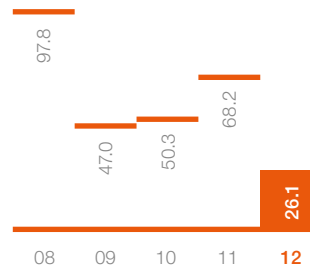
incident on the host Ula platform which was unrelated to the Blane field. The field is now fully operational again.

The Enoch field remained shut in for the majority of the year (since late January 2012) due to mechanical and subsea issues, and is expected to remain this way for much of 2013.

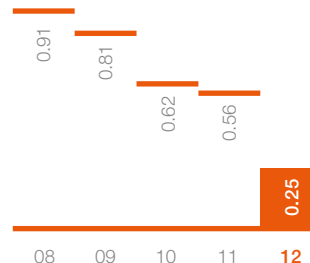
### 2013 focus

The UK assets are non-core for ROC. Our UK interests provide solid production and cash flow contribution; ROC will consider divestment of these assets and re-deploy capital to progress opportunities in the focus regions of South East Asia, China and Australia.

## UK REVENUE (US\$M)



## UK PRODUCTION (MMBBL)



## AFRICA

During 2012, ROC successfully concluded its sale to Tullow of the Company's Mauritanian assets. As a result, there was only a small contribution to production in 2012 from the Chinguetti oil field (ROC share formerly 3.25%). Net cash proceeds from the sale were US\$1.8 million and a resulting profit after tax of US\$10.3 million occurred in 2012.

ROC holds a 20% interest in Block H, offshore Equatorial Guinea. Following ROC's farm-out agreement in 2011, ROC has a free carry through one exploration well. The joint venture partners have received an extension to the permit to February 2014. A detailed technical review is being carried out to develop further prospects

in Block H with the drilling of an exploration well now expected to commence during the fourth quarter, 2013. An option is also in place for White Rose Energy Ventures (Equatorial Guinea) Limited to acquire ROC's remaining 20% interest in Block H for US\$16.1 million prior to the spud of any exploration well.

Progress towards completion of the transactions relating to the sale by ROC of its offshore Juan de Nova (Mozambique Channel) interest continues, with final government approval required by the French authorities for completion. This is expected later in 2013.

# ACTIVITY SUMMARY

In 2012, ROC-operated production was 22,500 BOEPD from assets in China and Australia. The high levels of activity across the portfolio of assets will continue in 2013 with key activities in China and Malaysia. ROC will also pursue further opportunities across South East Asia, in support of business value growth.

ACTIVITY SUMMARY	2013 Activity				2014 Activity			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Exploration activity				Block H well <sup>1</sup> (EG)				
			Bohai Bay Block 09/05 seismic				Bohai Bay Block 09/05 <sup>2</sup>	
Appraisal activity	Balai Cluster pre-development							
	Zhao Dong (Zhanghai Block)							
Development activity			Balai Cluster <sup>3</sup>					
	Beibu Gulf							
	Zhao Dong development drilling							
Production milestones		Beibu Gulf production online						
			Balai Cluster oil production <sup>3</sup>					

<sup>1</sup> Well timing is subject to joint venture approval and rig availability; White Rose has an option to acquire ROC's interest in Block H for US\$16.1 million prior to spud of any well.

<sup>2</sup> Timing of exploration drilling subject to seismic.

<sup>3</sup> Dependent on declaration of project viability for Balai Cluster fields following pre-development phase.

## CHINA

- > Beibu Gulf development activity will continue during 2013, with first oil expected during 1Q2013 and ramping up to plateau production later in 2013
- > Geotechnical work continues on Block 09/05 with seismic acquisition planned during 3Q2013
- > Ongoing development drilling and production enhancements at Zhao Dong to support production volumes and deliver reserve replacement

## MALAYSIA

- > Pre-development phase will continue within the Balai Cluster RSC with appraisal activity to conclude during 2013
- > Submission of a field development plan is anticipated before the end of 2013 – subject to agreement on economic viability

## AUSTRALIA

- > Continue assessing production enhancement opportunities at Cliff Head
- > Assess next stage of development or farm-out opportunities for BMG

## OPPORTUNITIES BEING PURSUED ACROSS SOUTH EAST ASIA AND CHINA

- > Focus on shallow water exploration and appraisal projects in Malaysia
- > Mature field rejuvenation projects
- > Assessing exploration opportunities in proven hydrocarbons provinces within focus region
- > Focus on opportunities that are adjacent to or near existing fields or infrastructure
- > Assess potential for Myanmar country entry

# SUSTAINABLY GROWING OUR BUSINESS

ROC is committed to sustainable business practices. The following summary of the full Sustainability Report identifies how we work with stakeholders in progressing towards fulfilment of our strategic objectives in a sustainable manner.

ROC's economic fundamentals are sound, enabling the expansion of the business through existing growth projects and new opportunities. At ROC, we recognise our ability to sustain value growth is dependent on the Company's ability to operate in a socially and environmentally responsible manner.

Guiding this sense of responsibility is ROC's Sustainable Practices Framework. The framework has been in place for a number of years and provides a consistent approach in managing our responsibilities across the following categories; respect for the natural environment; a safe and healthy place to work; being a reliable and responsible operator, and being a trusted neighbour in the community. These are all aimed at increasing value to our stakeholders.

Our dedication to Health, Safety and Environment ('HSE') practices is encapsulated in our HSE Vision and Guiding Principles. Our strong HSE track record provides our 'license to operate' in the core operating regions of Australian, South East Asia and China.

Complementing ROC's dedication to HSE is our Asset Integrity Management ('AIM') programme. All ROC operations and projects develop and implement full lifecycle asset integrity controls. Monitoring of performance is confirmed with regular audits.

Asset Integrity Management provides ROC with multiple benefits. The likelihood of major safety and environmental incidents is minimised. Our staff and neighbours are kept safe and the life and up-time of our equipment is extended. The efforts deliver economic benefits through steady, reliable production and lower operating costs – important components as we work to extract maximum value from technically challenging fields. This approach helps ROC maintain a competitive advantage over our peers as a 'partner of choice' for joint venture partners, national oil companies and governments.

ROC is moving into an exciting operational period with significant growth potential. The Company must ensure that growth is sustainable, from an economic, social and environmental perspective. Continuing responsiveness to developing business trends such as rising input costs and increasing sensitivity in relation to environmental footprint, is essential if ROC is to maintain our competitive advantage.

The full Sustainability Report provides an update for stakeholders on our 2012 performance and addresses how we integrate sustainability concepts and best practices into managing business risks and capturing value growth opportunities.

**THE FULL REPORT CAN BE VIEWED ON THE COMPANY'S WEBSITE [WWW.ROCOIL.COM.AU](http://WWW.ROCOIL.COM.AU).**

# PERFORMANCE SUMMARY

	2012	2011	2010	2009	2008
<b>ECONOMIC</b>					
Total gross operated production (MMBOE)	8.2	9	9.2	10	11
Total working interest production (MMBOE)	2.4	2.7	2.7	3.7	4.0
Oil sales from working interest (MMBOE)	2.1	1.9	2.3	3.6	3.9
Sales revenue (US\$m)	240.8	285.8	235.4	204.5	358.2
Operating cash flow (US\$m)	126.3	43.4	58.4	91.4	182.5
Net profit/(loss) after tax (US\$m)	61.0	27.7	(35.9)	(115.4)	(278.4)
Total income taxes, royalties and levies (US\$m)	47	97	46	47	40
Royalties to government (% of production)	9.6%	7.0%	7.0%	5.0%	5.0%
Market capitalisation (A\$m; at 31 December)	300.6	171.0	292.4	427.9	205.8
<b>PEOPLE</b>					
Total number of employees <sup>1</sup>	186	185	182	160	222
Female	69	67	68	54	71
Male	117	118	114	106	151
Total turnover rate	21%	11%	8%	20%	9%
<b>HEALTH AND SAFETY</b>					
Total man-hours <sup>2</sup>	1,699,790	1,710,062	2,022,000	2,549,973	4,771,213
Medical treatment cases	2	1	6	2	7
First aid cases	14	14	30	47	40
Lost Time Injuries	1	0	3	1	4
Lost Time Injury Frequency Rate ('LTIFR') <sup>3</sup>	0.59	0	1.50	0.39	0.84
Restricted work cases	2	1	2	0	1
Fatalities	0	0	0	0	0
Total Recordable Injury Frequency Rate ('TRIFR')	2.94	1.20	5.40	1.18	2.51
<b>COMMUNITY</b>					
Voluntary social investment (US\$)	133,939	111,545	290,111	219,116	580,274
<b>ENVIRONMENT</b>					
<b>GHG emissions (tCO<sub>2</sub>-e)</b>					
China	92,057	108,678	15,6796	NR	NR
Australia	17,041	20,538	78,543	NR	NR
Total GHG emissions (tCO <sub>2</sub> -e)	109,098	129,216	235,339	363,370	234,197
<b>Intensity of hydrocarbon production (tCO<sub>2</sub>-e/t)</b>	<b>0.08</b>	<b>0.10</b>	<b>0.20</b>	<b>0.24</b>	<b>0.15</b>
<b>Significant loss of containment incidents</b>					
Oil spills	0	0	2	0	0
Gas releases	0	0	2	0	0
All other significant environmental incidents	0	0	0	0	0
<b>Flared gas</b>					
Total flared gas (t)	7,365	17,455	57,025	52,741	50,511
Intensity (t of flared gas per t of hydrocarbon production)	0.006	0.01	0.05	0.03	0.03
<b>Waste management</b>					
Total hazardous waste <sup>4</sup> (t)	51	34	60	52	133
Total non-hazardous waste (t)	1,592	2,931	3,751	5,061	2,235
<b>Energy consumption<sup>5</sup></b>					
Total energy consumption (Tj)	2,034	2,535	4,162	4,171	3,514
Intensity (Tj of energy consumption per kt hydrocarbon production)	1.56	1.92	3.57	3.00	2.00
<b>Water usage</b>					
Fresh water use (m <sup>3</sup> )	27,231	31,558	45,102	45,056	46,044
<b>Fines</b>					
Total number of fines and penalties	1	0	0	1	0

NR = not reported

The previously disclosed metric of 'Controlled discharges to water' has been excluded from the performance summary as all produced water at Zhao Dong and Cliff Head is treated and reinjected back into the reservoir that it was initially extracted from.

1. Total number of employees includes both full and part-time employees as at 31 December 2012.
2. Total man-hours includes both the employees and contractors.
3. Frequency rates are determined as the number of injuries per million hours worked.
4. Per IPIECA/API Guidelines (2010), hazardous waste includes all wastes that is defined as hazardous, toxic, dangerous, listed, priority, special or some other similar term as defined by an appropriate country, regulatory agency or authority.
5. 2012 energy consumption and intensity numbers also includes energy usage in Sydney, Beijing and Kuala Lumpur offices.

# A FRAMEWORK FOR INTEGRITY

**Contributing to ROC's competitive position is our proactive capacity to identify threats and opportunities from an economic, environmental or social perspective.**

ROC has an established Enterprise Risk Management Framework to identify key risks, with appropriate controls and actions. The risks are reviewed on an annual basis for all operations. ROC has a HSE Committee and an Audit and Risk Committee which meet regularly to review risk status and ensure the risk potential is being effectively managed.

## **DURING 2012, OUR RISK ASSESSMENT FRAMEWORK IDENTIFIED MATERIAL ISSUES RELATING TO SUSTAINABILITY WHICH HAVE BEEN ADDRESSED**

### **Maintaining high standards of health, safety and environmental management and reporting**

ROC is committed to conducting its business in a manner which prevents injury or illness to employees, contractors and the community. ROC closely monitors critical safety controls. During 2012, ROC reviewed and updated its Emergency Response Plans and the Corporate Crisis Management Plan. Regular training and exercises are conducted to ensure staff are prepared in the event of a major incident.

As an international oil and gas company, ROC operates within a range of different environments. Success depends on our ability to understand risk potential and work to control impacts. ROC conducts Environmental Impact Assessments on all operated assets and has active environmental management plans for all operations. ROC had no significant oil spills in 2012.

In 2013, ROC is developing a 'line of sight' monitoring tool based on industry best practice to monitor the health of the barriers designed to prevent and control major accident events.

### **Ensuring business practices and codes of conduct remain ethical and comply with local and international laws**

In early 2012, the ROC Board approved an updated suite of corporate governance charters and policies. This review also encompassed updating the policies, practices and procedures in relation to preventing bribery and corruption and the giving and receiving of gifts and entertainment.

A ROC Personal and Business Conduct Handbook was introduced and provides a clear guide on acceptable practices and expectations in relation to the conduct of Directors, employees and all who conduct business with ROC, together with the Company's whistle blowing policy.

### **Business development and reserves replacement**

ROC achieved a 100% reserve replacement during 2012 attributable to successful exploration drilling in Beibu Gulf and enhancements from existing producing assets. During 2012, ROC reviewed its business development function, progressing further in the regional approach. The function is led by Dr Pierre Eliet who is based in Kuala Lumpur. ROC will continue to pursue new opportunities aligned with its strategic objectives in Australia, South East Asia and China region.

ROC is an international operator in Australia, South East Asia and China, and works closely with partners and communities to ensure projects deliver value for all stakeholders. During 2012, ROC worked with partners to progress the Beibu Gulf development project, now nearing completion, and the appraisal of the Balai Cluster project (Malaysia).

### **Workforce composition, culture and commitment**

ROC recognises that to remain competitive, attracting, developing and retaining staff is a key to success. ROC reviewed its remuneration practices during 2012. ROC values the cultural diversity that exists with the present organisation across China, South East Asia and Australia. Our core values establish a framework for ROC which is designed to promote both cultural and gender diversity across the Group.

### **Community engagement**

ROC engages openly with communities and has implemented programmes aimed at supporting local communities. ROC seeks to engage with community groups including local councils at all stages of the development of its projects.

**STAKEHOLDER ENGAGEMENT**

ROC's long term success depends on its ability to build productive relationships and work collaboratively and transparently with our stakeholders. Core stakeholder groups include:

- > employees and contractors
- > investment community
- > business partners
- > government, NGO's & industry groups
- > communities

**OPPORTUNITIES AND RISKS**

The Enterprise Risk Management Framework for business sustainability enables ROC to identify, manage and assess risks effectively throughout our business. Embedding the framework into the business is helping to drive a culture of accountability. As part of our commitment to identifying and reducing risk, both Corporate Strategic and Departmental Risk Assessments are undertaken regularly. As ROC's business has grown in South East Asia and China, separate divisional risk profiles have been established to monitor the risks particular to the growth areas.

**GOVERNANCE**

In early 2012, the Board approved an updated suite of corporate governance charters and policies. Following the review, policies, practices and procedures relating to the prevention of bribery and corruption and the giving and receiving of gifts and entertainment were updated and shared with the business.

All of the policies relevant to personal and business conduct were incorporated into a ROC Personal and Business Conduct Handbook ('Handbook'). The Handbook is published in English and Mandarin and distributed to all employees engaged by the Company.

**HSE VISION AND GUIDING PRINCIPLES**

Our HSE vision and guiding principles have been integrated into all ROC operations and guide our commitment to the following goals:

- > zero harm to our employees, contractors and the communities in which we operate;
- > conduct our business in a way that minimises the risks to the environment
- > integrate HSE into all of our business activities; and
- > demonstrate industry leadership in HSE performance.

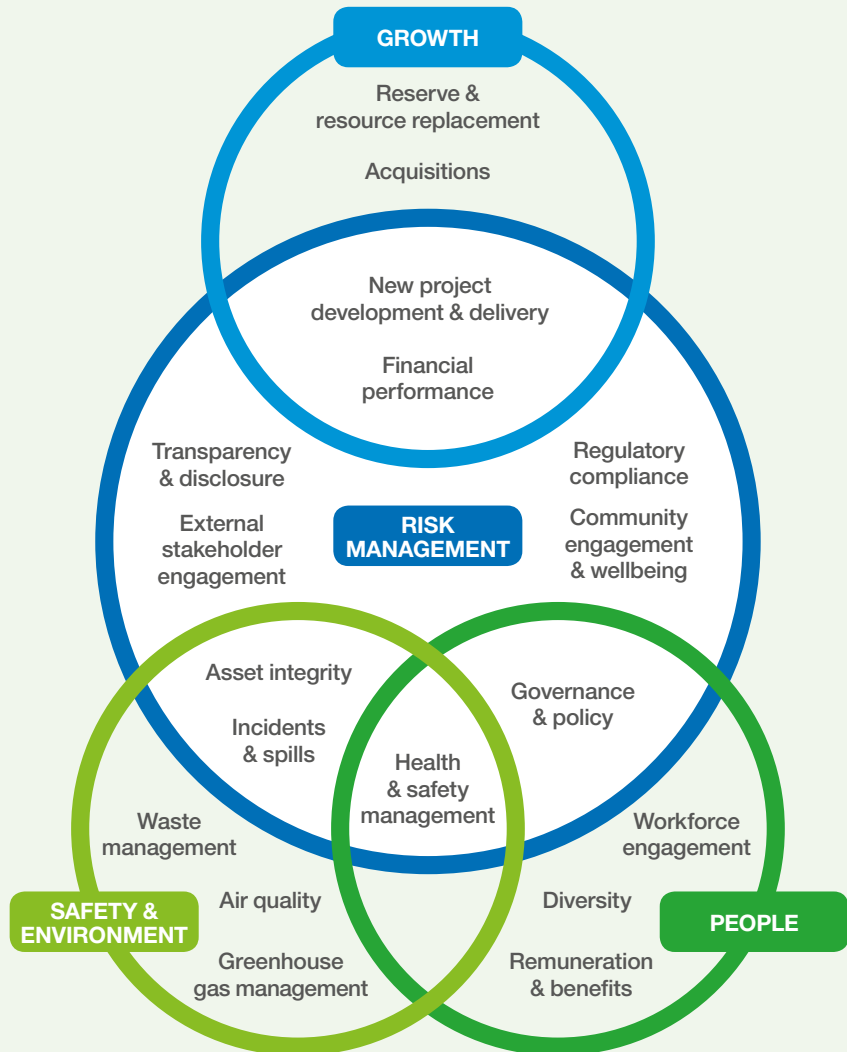
ROC plans to review its current HSE governance arrangements against best practice and implement any identified improvements during 2013.

**A LEADERSHIP PRIORITY**

The Board has overall accountability for sustainability issues and monitors them through the HSE Committee and the Audit and Risk Committee.

**ROC'S 'LICENSE TO OPERATE'**

The key sustainability indicators outlining risks and opportunities across the business include:



# OUR PERFORMANCE

ROC is pleased to report that the majority of our 2012 sustainability targets were achieved.

## RESPECTING THE ENVIRONMENT

As an international upstream oil and gas company, ROC's activities have the potential to impact the environment. Reliable environmental performance and a process of continuous improvement within our operations is essential for our business and operating reputation.

	2012 GOALS	OUTCOMES
<b>Environment</b>	> Improve environmental reporting processes	> Detailed processes and procedures set up for Greenhouse Gas and Energy Reporting in Australia
	> Progress Zhao Dong water treatment project	> Zhao Dong water treatment project completed
	> Reduce hydrocarbon loss of containment incidents by 50%	> Recycling scheme established in Sydney office
	> Improve waste and recycling practices	> No significant oil spills during 2012
	<b>FUTURE FOCUS</b>	
	> Maintain focus on oil spill prevention	

Environmental management is a key aspect of the ROC HSE Management System and all ROC operations are expected to fully comply with regional environmental regulations. Environmental risk assessment tools such as Environmental Hazard Identification process and Environmental Impact Assessments ('EIA') are used to assess the potential for any impact on the environment within our operations.

ROC's management of environmental impacts and understanding of stakeholder needs continues throughout field life. In 2012, ROC removed sub-sea equipment and buried flowlines in the sea bed at the BMG field to permit fishermen greater access to fishing grounds in the vicinity of the field.

## LOSS OF CONTAINMENT

ROC's ability to effectively manage loss of containment is driven by our Asset Integrity Management process. ROC manages the risk of oil spills from pipelines and facilities by performing regular equipment inspections and preventative maintenance designed to identify and mitigate the risk of loss of containment. During 2013, corporate audits will take place at all ROC operated assets. These will include an AIMS and Process Safety Audit at Zhao Dong, an HSE expectation compliance audit at Cliff Head and an HSE regulatory compliance audit at BMG.

Environmental Management Plans are established for all operations to monitor the surrounding environment and implement preventive controls to reduce environmental impact.

ROC had no significant oil spills during 2012.

## EMISSIONS AND FLARING

In 2012, ROC continued to report total GHG emissions in accordance with the Australian Government's National Greenhouse and Energy Reporting Act 2007. ROC actively seeks to reduce flaring where possible through technological innovation.

ROC's total flared gas volumes decreased by 58% in 2012, following investment to permit export and sale of gas rather than flaring at Zhao Dong, China and improved operating practices at Cliff Head.

## BIODIVERSITY

ROC's impact on biodiversity is assessed on commencement of all projects through an Environmental Impact Assessment. ROC manages the monitoring and protection of sensitive environmental ecosystems through the implementation of our project specific Environmental Management Plans.

## WATER

Fresh water usage in ROC operations is minimal and limited to human consumption (potable water). The Zhao Dong operation significantly reduced its water consumption during 2012 by only injecting produced water back into the reservoir.

All water extracted from the oil reservoirs during production is treated (trace amounts of oil are removed) and injected back into underground reservoir formations.

### Water treatment project

All water produced on Zhao Dong as part of the oil extraction process is injected back into the reservoirs for pressure support. With increasing levels of water production from the fields, a project was instigated to improve the quality and capacity of water handling facilities. Trials were completed during 2010 and in 2012 a Compact Flotation Unit Water Treatment Plant was successfully installed.

Benefits from the new filtration plant include a reduction in operating and maintenance costs, reduced physical footprint on the platform and improved quality of water being injected back into the reservoir.

## WASTE

Where possible, ROC segregates waste materials, based on their general physical and chemical characteristics, to maximise recycling. It is the responsibility of the personnel working in ROC operations to identify and monitor all waste generated within the facilities. Field personnel are trained on key elements of waste management including information on the legislative background relating to waste disposal and the waste disposal procedures for their facility.

### Green solutions

- > Where possible unused and retired IT equipment is distributed to schools or non-profit organisations. Failed equipment and other electronic waste are disposed of through certified environmentally acceptable disposal agents.
- > In China, a vehicle monitoring and management system is being used to reduce mileage and overall fuel costs, together with carbon emissions.



**OUR PEOPLE**

ROC has a committed team working with an appropriate corporate governance framework to deliver successful operations with the development of our regional growth strategy. The ROC HR Management System ('HRMS') is being developed to support the growing regional business, focusing on:

- > employee engagement;
- > attraction and retention of key talent; and
- > high performance culture.

The HRMS is a framework that will support ROC in effectively managing the lifecycle of the employee experience consistently across the business from the point of attraction through to transition and optimise the investment in team success.

	2012 GOALS	OUTCOMES
<b>People</b>	<ul style="list-style-type: none"> <li>&gt; Ensure appropriate staff compensation</li> <li>&gt; Align staff incentives to include a sustainability component</li> <li>&gt; Updated office governance policies including code of conduct</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Industry benchmarking and remuneration review conducted</li> <li>&gt; Updated position descriptions and structure where required for regions</li> <li>&gt; Employee handbook introduced across the Company</li> <li>&gt; Governance policies updated including anti-corruption</li> <li>&gt; Diversity policy updated and rolled out to all staff</li> </ul>
	<b>FUTURE FOCUS</b>	
	<ul style="list-style-type: none"> <li>&gt; Employee development and training</li> <li>&gt; Succession planning</li> <li>&gt; Employee engagement and alignment across regions</li> </ul>	



**Steve Zuvela**

I commenced working at ROC in 2008 as a Petroleum Engineer concentrating on the Australian assets at the Cliff Head oil field. My development over time allowed me to become involved in broader roles across ROC's international portfolio, which presented me with the opportunity to move to ROC's Beijing office as a Senior Reservoir Engineer. The opportunities provided by ROC have allowed an expedited career development path not typically seen in the oil and gas industry.

**HEALTH AND SAFETY**

The health, safety and wellbeing of employees and contractors are ROC's highest priority and we are committed to ensuring their safety is not compromised in the delivery of business objectives.



	2012 GOALS	OUTCOMES
<b>Health and safety</b>	<ul style="list-style-type: none"> <li>&gt; Reduce fires and ignition sources by 50%</li> <li>&gt; Injury frequency rates to remain below the Association of Oil &amp; Gas Producers five year averages for Asia and Australia</li> <li>&gt; Maintain track record of zero fatalities</li> <li>&gt; Implement Asset Integrity Management (AIMS) improvement programmes</li> <li>&gt; Revise HSE Management System document and implement additional HSE expectations</li> </ul>	<ul style="list-style-type: none"> <li>&gt; No fires were reported in 2012</li> <li>&gt; No fatalities recorded in 2012</li> <li>&gt; Injury frequency rates below Australian petroleum industry averages in 2012</li> <li>&gt; Continued company-wide implementation of AIMS during 2012</li> <li>&gt; Emergency Response Plans and Corporate Crisis Management Plan reviewed and updated</li> <li>&gt; ROC HSE Management System document was reviewed and updated</li> </ul>
	<b>FUTURE FOCUS</b>	
	<ul style="list-style-type: none"> <li>&gt; Maintain our track record of zero fatalities</li> <li>&gt; Continue to implement AIMS across the Company</li> <li>&gt; Identify and implement methods of influencing good HSE and AIMS practice in our non operated joint venture operations</li> <li>&gt; Implement 'line of sight' monitoring for safety critical controls at all our operations</li> </ul>	

Professionally managed assets with a focus on process safety and the prevention of major accidents underpin all ROC operations. Accidents undermine ROC's 'license to operate'. In 2013, a Safety Leadership Training Programme for line management will be introduced together with 'line of sight' monitoring tools, based on industry best practice.

**Two years LTI free at Zhao Dong**

Zhao Dong operations in Beijing, Tanggu and Bohai Bay achieved two years without a Lost Time Injury in November. This is a significant achievement due to the diversity of high risk activities during this period – including drilling operations, project construction work, marine and helicopter operations and pipe laying.

**ETHICAL LABOUR PRACTICES**

ROC's approach to recruitment and selection is designed to ensure consistency and fully incorporates equal employment opportunity ('EEO') principles. As an employer, ROC follows recruitment practices designed to attract and retain highly skilled and motivated staff. ROC's practices promote and support a diverse workforce and ensure candidates are treated ethically, fairly and respectfully, providing employees with the opportunity for advancement.

**WORKFORCE DIVERSITY**

ROC recognises that employee and cultural diversity encourages a broad range of skills and ideas. This helps to give ROC operations a competitive advantage. ROC actively recruits local personnel in the countries in which we operate and invests in mentoring and capacity-building initiatives.

**A TRUSTED NEIGHBOUR IN THE COMMUNITY**

Establishing and maintaining meaningful relationships with local communities is critical to the ongoing viability of our business. The method and frequency of engagement vary according to the needs of our stakeholders; however, we take a proactive approach designed to detect any contentious issues early and engage stakeholders to identify suitable solutions and improvement strategies to mitigate concerns.

	2012 GOALS	OUTCOMES
<b>Community</b>	<ul style="list-style-type: none"> <li>&gt; Continue educational support</li> <li>&gt; Seek new partnerships in the regions in which we operate</li> <li>&gt; Continue liaison activities with key community groups such as fishing communities for BMG</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Community support in Malaysia expanded to include the 'Love MySchool' programme</li> <li>&gt; Desk provided to Community Relationship Manager for Clontarf Foundation at ROC Sydney Office</li> <li>&gt; A length of flow-line was trenched permitting increased access for fishermen near the BMG asset</li> </ul>
	<b>FUTURE FOCUS</b>	
	<ul style="list-style-type: none"> <li>&gt; Continue to support the communities in which we operate focusing on solutions that will leave a long term positive legacy in the community</li> <li>&gt; Central theme of education to continue</li> <li>&gt; Remain active in local communities through sponsorship of community events</li> </ul>	



**Daisy Yuan**

I have been working with ROC since July 2008 and was promoted to HR Co-ordinator in March 2011. I believe ROC values cultural diversity, respect, learning and development. ROC has enabled my career development. The network of support is great and my efforts are recognised.

ROC initiatives support and help strengthen the social fabric of the communities in which we operate. We typically focus on community support strategies which have education as a central theme. This year, we strengthened our partnerships by providing educational sponsorships and assistance to local schools.



**Expanding our support in Malaysia**

ROC expanded its support of the Malaysian MyKasih organisation during 2012 to include the 'Love My School' programme which provides financial support to underprivileged families educating their children. Students from low income households in Bintulu, Sarawak, are given a Smart Card which pays for their purchase of school books, stationery items and food from the school canteen.



**ROC and The Clontarf Foundation**

ROC and The Clontarf Foundation continued to strengthen their partnership in 2012. The Clontarf Foundation exists to improve the education, discipline, self esteem, life skills and employment prospects of young Aboriginal men. ROC hosted the Bourke Clontarf Academy for a boardroom lunch for those boys who had achieved 80% or higher school attendance for the year.



**Nan Pai He – China community support**

The fishing village of Nan Pai He is located in the eastern Chinese province of Hebei, close to ROC's Zhao Dong operation. During 2012, ROC supported the area through a number of linked initiatives:

- > tree plantings at Qiwu and Zhao Jiapu Primary Schools, developing environmental awareness amongst the children by involving them in the care and nurture of the plants and trees;
- > three students were sponsored, covering tuition and school stationery supplies;
- > sponsorship of English teacher training courses;
- > donation of school bags to local schools; packed by ROC staff, the bags include school supplies and books. Since inception in 2009 this project has donated approximately 4,000 bags to local schools;
- > support for an 'English Corner' to motivate English language learning; and
- > ROC participation in the Fisherman Culture Festival. ROC provided souvenir booklets and presented the 2012 Calendar Art Competition Grand Prizes.

In 2013, ROC will continue building long term relationships and responding to broader community issues and needs. Our core focus will continue to target educational partnerships, and active sponsorships. ROC remains committed to our people-to-people links through work experience and employment opportunities in our local offices.

**ECONOMIC BENEFITS OF SUSTAINABILITY**

ROC's economic fundamentals are sound, enabling the expansion of the business through existing growth projects and other opportunities within our focus regions of Australia, South East Asia and China. At ROC, we know that our ability to sustain business growth is also dependent on our ability to operate in a socially and environmentally responsible manner.

	2012 GOALS	OUTCOMES
<b>Economic</b>	<ul style="list-style-type: none"> <li>&gt; Deliver positive share price performance</li> <li>&gt; Assess and secure growth opportunities in our focus regions</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Share price appreciated 73% during 2012</li> <li>&gt; Delivered record \$61 million net profit after tax</li> <li>&gt; Secured exploration Block 09/05 in Bohai Bay in China</li> <li>&gt; Malaysia Risk Service Contract pre-development activities continue with appraisal drilling campaign progressing well</li> <li>&gt; 100% 2P reserve replacement for 2012 production</li> </ul>
	FUTURE FOCUS	
	<ul style="list-style-type: none"> <li>&gt; 100% reserve replacement on a rolling three-year basis</li> <li>&gt; Continue to deliver value for shareholders through share price performance over the long run</li> <li>&gt; Continue securing growth opportunities in our focus regions</li> </ul>	

A central theme of ROC's Sustainable Practices Framework is the delivery of value to our shareholders and all stakeholders. Through the focused delivery of our strategy, ROC has achieved a second consecutive year of profit, together with a 2P reserve addition of 2.4 MMBOE (100% reserve replacement) and a strong net cash position at the end of 2012 of US\$57 million, giving us a strong foundation to continue growth. These results are underpinned by our systems and procedures throughout the business that manage and mitigate risks.

ROC is committed to continue to produce positive outcomes for our stakeholders and to work collaboratively and productively with our partners to ensure delivery of key projects.

# CORPORATE GOVERNANCE

ROC's Board and management are committed to actively achieving and maintaining best practice corporate governance and promoting transparency and responsibility in behaviour and reporting. This commitment includes not only complying with the *Corporations Act 2001*, regulations, Australian Securities Exchange ('ASX') Listing Rules and generally accepted accounting practices and standards but also with all environmental and social standards of business in all countries in which ROC operates including relevant legislation, regulations, global standards and industry codes of practice.

In accordance with this commitment, a detailed review of corporate governance practices, charters and policies was undertaken in 2011 and, in January 2012 the Board approved and adopted an updated suite of corporate governance charters and policies. This review was not limited to corporate governance policies and charters referred to in the ASX Corporate Governance Council Corporate Governance Principles and Recommendations with 2010 Amendments ('ASXCGC Principles and Recommendations'); the Company also updated the policies, practices and procedures in relation to a whole range of personal and business conduct practices including anti bribery and corruption and the giving and receiving of gifts and entertainment policies and procedures.

Throughout 2012, the Company followed all of the recommendations set out in the ASXCGC Principles and Recommendations ('ASXCGC Recs'). The Company's website at [www.rocoil.com.au](http://www.rocoil.com.au) contains a corporate governance section which includes copies of the Company's corporate governance policies and Board committee charters referred to in this statement.

The following statement outlines the Company's corporate governance practices in the 2012 reporting

year following the principles set out in the ASXCGC Principles and Recommendations.

## Principle 1: Lay solid foundations for management and oversight

**ASXCGC Recs. 1.1, 1.2, 1.3**

**Comply**

### Role of the Board

The Board is accountable to shareholders and other stakeholders for the performance of the Company. It is responsible for the overall corporate governance of ROC including its strategic direction, establishing goals for management and monitoring the achievement of these goals. In performing its responsibilities, the Board acts in the best interests of ROC, honestly, fairly and diligently and in accordance with the duties and obligations imposed upon it by ROC's constitution and the law.

The Company has established the functions reserved to the Board and those delegated to senior executives and has adopted a Board Charter which details the functions and responsibilities of the Board. This Board Charter was reviewed and updated in January 2012. In summary, the responsibilities of the Board include: monitoring the strategic and financial objectives of the Company, monitoring and assessing management's performance in achieving strategies and budgets approved by the Board, monitoring the performance of the Chief Executive Officer, monitoring risk and compliance with regulatory requirements including workplace health and safety processes and performance and setting the measurable objectives for achieving gender diversity in accordance with the ROC Diversity Policy.

### Delegation to Management

Under the Board Charter, the Board has delegated responsibility for the day-to-day management of the Company's business and affairs to the Chief Executive Officer. This responsibility is subject to an approved delegation of authority which is reviewed regularly and at least annually. Internal control processes are in place to allow management to operate within the delegations approved by the Board and the Chief Executive Officer cannot commit the Company to activities or obligations outside these delegated authorities without the specific approval of the Board.

### Evaluation of Senior Executives

The process for evaluating the performance of senior executives is set out in the ROC Remuneration Policy. This policy provides that each year senior executives will evaluate their performance in conjunction with the Chief Executive Officer. This evaluation is required to compare the performance of the individual senior executive with the requirements of the position and against any agreed performance goals and objectives and set the performance goals and objectives for the coming year.

A performance evaluation of senior executives and the Chief Executive Officer took place in the reporting period in accordance with the process set out above and in the ROC Remuneration Policy.

A copy of the Board Charter and the Remuneration Policy is available on ROC's website via the "Responsibility" tab or the following link: <http://www.rocoil.com.au/Responsibility/Corporate-governance.aspx>.

# CORPORATE GOVERNANCE

Continued

## Principle 2: Structure the board to add value

**ASXCGC Recs. 2.1,  
2.2, 2.3, 2.4, 2.5, 2.6.**

**Comply**

### Board Composition and Independence

The names of the Directors of the Company and details of their background, experience and professional skills are set out in the Directors' Report. Information regarding each Director's responsibilities on Board Committees and attendance at Board and Committee meetings is also set out in the Directors' Report.

Throughout 2012, the Board assessed each of the Non-Executive Directors as independent. Only the Chief Executive Officer and Executive Director, Alan Linn, was assessed as not independent. The Board's assessment of independence was based on the ROC Independence of Directors Policy. This policy sets out materiality thresholds for independence and relationships which affect independence thresholds.

In assessing the independence of each Director, the Board acknowledges the longevity of the term of the Chairman, Andrew Love, and the former Deputy Chairman, Will Jephcott (resigned 12 December 2012), but holds the view that this longevity did not undermine the independence of these Directors in the reporting period. The Board believes the accumulated experience of those Directors on the Board is a valuable resource, particularly as the Board renewal process, commenced in 2011, continues. As part of this renewal process, two new independent Directors were appointed in 2012.

The Board Charter includes a provision for Directors to take independent professional advice at the expense of the Company.

### Chairman

Andrew Love is the Company's Chairman and is an independent, Non-Executive Director.

The roles of the Chairman and Chief Executive Officer are not exercised by the same individual. Andrew Love is the Chairman and Alan Linn is the Chief Executive Officer.

### Nomination Committee

In January 2012, the Board established a separately constituted Nomination Committee and adopted a new Nomination Committee Charter that sets out the roles, responsibilities, composition and structure of the Nomination Committee. Prior to the establishment of the separately constituted Nomination Committee, the Board had operated a combined Remuneration and Nomination Committee.

Details of the names and qualifications of those appointed to the Nomination Committee in the reporting period and their attendance at meetings of the Nomination Committee are set out in the Directors' Report. All Directors on the Nomination Committee are independent. The Chair of the Board is the Chair of the Nomination Committee.

In summary, the responsibilities of the Nomination Committee as set out in the Nomination Committee Charter include: assessing the necessary and desirable competencies of the Board, developing the succession plans of the Board to maintain an appropriate mix of skill, experience, expertise and diversity on the Board, and establishing and monitoring company strategies on diversity and the implementation of the ROC Diversity Policy as it relates to Board appointments.

The Board has also adopted a Nomination and Appointment of Directors Policy which sets out the procedure for nomination of Directors and the suitability criteria for Directors as well as the selection and appointment process.

This policy also provides an outline for new Director induction and requires the Nomination Committee, at least annually, to review the size and composition of the Board to ensure that it continues to have the right mix of experience and competencies to fulfil its responsibilities effectively and taking into account the ROC Independence of Directors Policy and the ROC Diversity Policy.

### Evaluation of the Performance of the Board

An evaluation of the performance of the Board is conducted annually in accordance with the process for evaluating the performance of the Board and is set out in the ROC Board Performance Evaluation Process Policy. This policy provides that the Board, individual Directors' and Committees' performances be evaluated by way of a questionnaire distributed by the Chairman and followed up where applicable with one-on-one discussions. A performance evaluation of the Board in accordance with this process took in place in the reporting period.

A copy of the ROC Independence of Directors Policy, ROC Nomination Committee Charter, ROC Nomination and Appointment of Directors Policy and ROC Board Performance Evaluation Process Policy is available on ROC's website via the "Responsibility" tab or the following link: <http://www.rocoil.com.au/Responsibility/Corporate-governance.aspx>.

## Principle 3: Promote ethical and responsible decision-making

**ASXCGC Recs. 3.1,  
3.2, 3.3, 3.4, 3.5.**

**Comply**

### Code of Conduct

In January 2012, the Board adopted a new ROC Code of Conduct to apply to all Directors, employees and contractors of ROC. This new Code of Conduct replaced an existing Directors' Code of Conduct and a Code of Business Conduct. The new Code of Conduct provides a guide to Directors, officers and employees as to the practices necessary to maintain confidence in the Company's integrity, the practices necessary to take into account the legal obligations and the reasonable expectations of stakeholders and the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

The new Code of Conduct covers matters such as ethical and responsible decision-making; raising a concern and whistle blowing; conduct in the workplace including confidentiality; equal opportunity, privacy, harassment and health and safety; business conduct including compliance with laws; and conflicts of interest, and financial integrity. Specific prohibitions are included in the Code of Conduct regarding the making

of improper payments and bribery and corruption practices.

In addition to the prohibitions regarding bribery and corruption included in the Code of Conduct, during 2012 the Company introduced updated specific anti bribery and corruption and gifts and entertainment policies. These policies set standards and practices consistent with legislation and best practice guidelines applicable globally.

Following the update of corporate governance policies in 2012, all of the policies relevant to personal and business conduct were incorporated into a ROC Personal and Business Conduct Handbook ('Handbook'). The Handbook is published in English and Mandarin and is distributed to all employees and contractors engaged by the Company.

The Handbook not only sets out all relevant policies in full but also includes a clear guide as to acceptable practices and expectations in relation to the conduct of Directors, employees and all who conduct business with ROC.

The Handbook provides reinforced messaging regarding whistle blowing and how to raise a concern. A ROC Conduct Helpline has also been established to facilitate the confidential raising of concerns.

As part of the rollout of the Handbook, training sessions were held in ROC offices in Beijing, Kuala Lumpur and Sydney. Further and refresher training sessions will take place in 2013. The training sessions

focused on the conduct expectations and policies set out in the Handbook and separate sessions were held on the anti bribery and corruption policy and practices and procedures in relation to the giving and receiving of gifts and entertainment ('Handbook Training').

Regular monitoring of compliance with the policies in the Handbook is undertaken and on an annual basis all employees are asked to confirm their understanding and compliance with the Handbook and its contents.

Failure to comply with the Code of Conduct, the Anti Bribery and Corruption and Gifts and Entertainment Policies or any of the policies included in the Handbook is regarded as a serious breach of the relevant policy and is investigated. Breaches may result in disciplinary action ranging from warnings to termination of employment.

The Company also has an established Share Trading Policy which governs the trading in Company shares by Directors and employees. This policy was reviewed and updated in January 2012. The updated Share Trading Policy is included in the Handbook and its provisions were covered in the Handbook Training.

A copy of the ROC Code of Conduct and the ROC Share Trading Policy is available on ROC's website via the "Responsibility" tab or the following link: <http://www.rocoil.com.au/Responsibility/Corporate-governance.aspx>.

# CORPORATE GOVERNANCE

Continued

## Diversity

The Company established a policy concerning diversity in May 2011. This Diversity Policy was reviewed and updated in January 2012. In summary, the policy provides guidelines in relation to ROC's commitment to diversity, the establishment of measurable objectives for achieving gender diversity, the annual assessment of the objectives set for achieving gender diversity and the progress made towards achieving the objectives set, the procedures to implement the Diversity Policy and the responsibilities of the Nomination Committee and the Remuneration Committee to consider the Diversity Policy. The updated Diversity Policy is included in the Handbook and its

provisions were covered in the Handbook Training.

### 2012 Diversity Measurable Objectives

The measurable objectives set by the Board for achieving gender diversity in 2012 and the progress toward achieving them in 2012 is set out in the table below.

### 2013 Diversity Measurable Objectives

The Board has set the following measurable objectives for achieving gender diversity in 2013:

1. Review and update recruitment practices to provide that for all senior and technical positions to be filled, a

balance of candidates by gender be considered for each position where possible and practical.

2. Consider and review education levels of women across the organisation and identify applicable training or education programmes which align with performance objectives or career goals.
3. Review and update the ROC policy on sex-based harassment in the workplace and provide either web or presentation style training on the updated policy.
4. Maintain monitoring of flexible workplace practices, paid maternity leave and retention of women in the workplace.

2012 Measurable Objectives	Progress in Meeting 2012 Measurable Objectives
Review and update the ROC Diversity Policy.	Objective achieved. The ROC Diversity Policy was reviewed and updated on 25 January 2012.
Review and update the Nomination and Remuneration Committee Charters to include responsibilities relating to achieving and implementing the Company Diversity Policy.	Objective achieved. The Nomination Committee Charter and the Remuneration Committee Charter were updated on 25 January 2012 to include responsibilities relating to achieving and implementing the Diversity Policy.
Introduce and implement an education programme on the ROC Diversity Policy across all ROC locations.	Objective achieved. The Diversity Policy was included in the Handbook circulated to staff at all ROC locations. The provisions of the Diversity Policy and expectations regarding diversity were included in Handbook Training conducted in Beijing, Kuala Lumpur and Sydney in August 2012.
Identify the various areas of ROC's operations where women are employed and whether it is appropriate to consider setting any goals in the 2013 financial year to increase the representation of women in any particular area of operations.	Objective achieved. The various areas of ROC operations where women are employed have been identified. It was found that approximately 23% of ROC's female workforce were engaged in administration, 43% in operations (including drilling, exploration, engineering, health and safety, procurement and subsurface), 13% of women employed by ROC were involved in commercial, legal, human resources or business development and 21% in finance and IT. Consideration has been given by the Board to the setting of numerical targets for gender diversity in specified areas of the business but the Board agreed that the nature of ROC business and the growth of operational roles in South East Asia were such that aspirational initiatives were more appropriate to build on gender diversity in the organisation than numerical targets.
Introduce and monitor initiatives based on: <ul style="list-style-type: none"> <li>flexible workplace practices;</li> <li>provision of paid maternity leave; and</li> <li>retention of women in the workplace (measured by length of service).</li> </ul>	Objective achieved. <p><b>Flexible Workplace Practices</b> – In 2012, <b>formalised</b> part-time and flexible working arrangements were put in place for a number of female employees.</p> <p><b>Provision of Paid Maternity/Paternity Leave</b> – In 2012, paid maternity/paternity leave was offered in all ROC locations in accordance with statutory or other applicable standards.</p> <p><b>Retention of Women in the Workplace</b> – In 2012, statistics outlining the retention of women in the workplace measured by length of service were obtained. It was found that of the total number of women employed at ROC, over 17% had been with the Company more than 10 years, over 23% between five and nine years and the remaining between less than one year and four years.</p>

## Proportion of Women Employees

As at 31 December 2012, the proportion of women employees in the whole organisation was 69 out of 186 (37%), the proportion of women in senior executive positions is two out of 10 (20%) and the proportion of women on the Board is zero out of six (0%).

## Wider Commitment to Diversity

ROC's commitment to diversity is not limited to gender diversity. ROC is committed to recruiting, training and promoting individuals based on competence and to attracting the best people in their fields, regardless of gender, age, disability, ethnicity or cultural background. The Board believes that Board and employee diversity encourages a broad range of skills and ideas, which helps give ROC a competitive advantage in the countries where it operates. In China, over 92% of ROC's employees are Chinese nationals and in Malaysia approximately 58% of ROC employees are Malaysian locals and in the Malaysian joint venture company (ROC holds a 48% interest), Malaysian locals comprise over 69% of the workforce. ROC is committed to the development and training of its local personnel in the various countries in which it operates.

A copy of the Diversity Policy is available on ROC's website via the "Responsibility" tab or the following link: <http://www.rocoil.com.au/Responsibility/Corporate-governance.aspx>.

## Principle 4: Safeguard integrity in financial reporting

**ASXCGC Recs. 4.1, 4.2, 4.3, 4.4.**

**Comply**

### Audit and Risk Committee

The Board is committed to ensuring the Company's financial reports present a true and fair view of the Company's financial position and comply with relevant accounting standards. In support of this commitment, the Board has established an Audit and Risk Committee. The primary role of the Audit and Risk Committee is to assist the Board in discharging its responsibilities in relation to the Company's financial reporting, internal control structure risk management systems and internal and external audit functions and to make appropriate recommendations in respect of those responsibilities.

The Audit and Risk Committee has a formal charter which sets out the Audit and Risk Committee's role and responsibilities, composition, structure and membership requirements. This Charter was reviewed and updated in January 2012.

The Audit and Risk Committee consists only of Non-Executive Directors, all of whom are independent. It is chaired by an independent chair who is not the

chair of the Board and at all times is constituted by at least three members. At the discretion of the Audit and Risk Committee, the external auditor and the Chief Executive Officer and other executives are invited to attend meetings.

Details of the names and qualifications of those appointed to the Audit and Risk Committee and their attendance at meetings of the Audit and Risk Committee are set out in the Directors' Report.

### External Auditor

The Audit and Risk Committee Charter provides that amongst other responsibilities the Audit and Risk Committee is responsible for monitoring compliance by an external auditor with the independence requirements imposed by the *Corporations Act 2001*. This includes a rotation of audit partner requirements. The Audit and Risk Committee is responsible for recommending to the Board the appointment and terms of engagement of the external auditor.

A copy of the Audit and Risk Committee Charter is available on ROC's website via the "Responsibility" tab or the following link: <http://www.rocoil.com.au/Responsibility/Corporate-governance.aspx>.



# CORPORATE GOVERNANCE

Continued

## Principle 5: Make timely and balanced disclosure

**ASXCGC Recs. 5.1, 5.2. Comply**

### Continuous Disclosure Policy

The Company has established a Continuous Disclosure Policy designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance. The Continuous Disclosure Policy was reviewed and updated in January 2012. In summary, this policy provides guidelines in relation to the Company's obligations of disclosure under the ASX Listing Rules and the *Corporations Act 2001* and procedures for determining material information and disclosing material information.

The updated Continuous Disclosure Policy is included in the Handbook and its provisions were covered in the Handbook Training.

In 2013, this policy will again be reviewed and updated where applicable to reflect the revised ASX Guidance Note 8 regarding continuous disclosure and ASX Listing Rule 3.1 once released in final form by the ASX.

A copy of ROC's Continuous Disclosure Policy is available on ROC's website via the "Responsibility" tab or the following link: <http://www.rocoil.com.au/Responsibility/Corporate-governance.aspx>.

## Principle 6: Respect the rights of shareholders

**ASXCGC Recs. 6.1, 6.2. Comply**

### Shareholder Communication

The Company has established a Communications Policy for promoting effective communication with shareholders and encouraging their participation at general meetings. This policy was reviewed and updated in January 2012. In summary, this policy provides guidelines in relation to ROC's commitment to shareholder communication, market communication in general as well as communications in relation to Company meetings, analyst briefings and reports and employee communications. The updated Communications Policy is included in the Handbook and its provisions were covered in the Handbook Training.

The Company maintains a website which is kept up to date with all relevant announcements to the market and related information after release to the ASX. ROC's website address is: [www.rocoil.com.au](http://www.rocoil.com.au).

A copy of ROC's Communications Policy is available on ROC's website via the "Responsibility" tab or the following link: <http://www.rocoil.com.au/Responsibility/Corporate-governance.aspx>.

## Principle 7: Recognise and manage risk

**ASXCGC Recs. 7.1, 7.2, 7.3, 7.4. Comply**

### Risk Management Roles and Responsibilities

ROC recognises the need to actively manage material business risks and to ensure that internal controls are in place to effectively monitor and manage the Company's risks. The Company has established a Risk Management Policy for the oversight and management of material business risks. This policy was reviewed and updated in January 2012. In summary, this policy provides guidelines in relation to responsibility for risk management, ROC's risk management systems, ROC's risk profile, the monitoring of its risk management performance and the disclosure of material change to its risk profile and risk management reporting.

The Board is ultimately responsible for the oversight and integrity of the Company's risk management systems. The Board has established an Audit and Risk Committee to assist it in fulfilling its obligations in relation to the Company's risk management systems. The Board has also established a Health, Safety and Environment Committee to assist it in fulfilling its obligations in relation to the overseeing of the Company's work health, safety and environment obligations and risks. The Audit and Risk Committee also retains KPMG to provide support to the internal risk management process and assessment of risk profile.

Through the Audit and Risk Committee and the Health, Safety and Environment Committee, the Board requires management to design and implement a risk management and internal control system to manage the Company's material business risks and to report to it on whether those risks are being managed effectively.

With the support of these Board Committees and through integrated risk management programmes that identify, assess and manage risks, management ensures that risks are well understood and managed proactively and reporting is kept up to date and relevant. During the reporting year, management provided the risk profile on a regular basis to the Audit and Risk Committee and the Health, Safety and Environment Committee. At least annually management is required to report to the Board as to the effectiveness of the Company's management of its material business risks in accordance with the ROC Risk Management Policy. This report was provided to the Board regularly throughout 2012.

### **Chief Executive Officer and Chief Financial Officer Assurance**

The Chief Executive Officer and the Chief Financial Officer have stated in writing to the Board that for the financial year ended 31 December 2012, the statements made by them regarding the integrity of the financial statements are founded on a sound system of risk management, internal compliance and control, which in all material respects implements the policy as adopted by the Board and that the risk management and internal compliance control, to the extent that they relate to financial reporting, are operating effectively and efficiently in all material respects.

A copy of the ROC Risk Management Policy is available on ROC's website via the "Responsibility" tab or the following link: <http://www.rocoil.com.au/Responsibility/Corporate-governance.aspx>.

## **Principle 8: Remunerate fairly and responsibly**

**ASXCGC Recs. 8.1,  
8.2, 8.3, 8.4.**

**Comply**

### **Remuneration Practices**

ROC is committed to adopting remuneration practices that align the interests of employees and shareholders by linking individual and company performance with remuneration outcomes; rewarding employees for financial and non-financial performance and driving behaviour and focusing performance in alignment with business objectives. In support of this commitment, the Board has established a separately constituted Remuneration Committee and adopted a Remuneration Policy.

The Remuneration Committee consists only of independent Directors, is chaired by an independent chair and has at least three members. Details of the names and qualifications of those appointed to the Remuneration Committee in the reporting period and their attendance at meetings of the Remuneration Committee are set out in the Directors' Report. The roles, responsibilities, composition and structure of the Remuneration Committee are set out in the Remuneration Committee Charter adopted by the Board in January 2012.

The Board has also established a Remuneration Policy. In summary, this policy provides guidelines in relation to the Company's commitment to remuneration, remuneration packages

for employees, short term and long term incentive plans, the policy in relation to Non-Executive Director remuneration and the performance evaluation of senior executives. The Company's Share Trading Policy also prohibits employees participating in any equity-based incentive plan from entering into transactions which limit the risk of participating in any unvested entitlements.

### **Non-Executive Director Remuneration**

The Company clearly distinguishes the structure of Non-Executive Directors' remuneration from that of Executive Directors and senior executives. The 2012 Remuneration Report included in the Directors' Report provides a separate table outlining the structure of Non-Executive Directors' remuneration. The ROC Remuneration Policy also provides that the total amount of annual remuneration paid to Non-Executive Directors not exceed the amount authorised by shareholders in general meetings.

Non-Executive Directors do not receive any incentive-based remuneration or employee share rights or options and do not receive any retirement benefits other than statutory entitlements.

A copy of the ROC Nomination Committee Charter, the ROC Remuneration Policy and the ROC Share Trading Policy are available on ROC's website via the "Responsibility" tab or the following link: <http://www.rocoil.com.au/Responsibility/Corporate-governance.aspx>.

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# **DIRECTORS' REPORT AND THE ANNUAL FINANCIAL REPORT**

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# DIRECTORS' REPORT

The Directors of Roc Oil Company Limited ('Company' or 'ROC') have pleasure in submitting the Directors' Report for the financial year ended 31 December 2012.

## Directors

The names and particulars of the Directors of the Company at any time during or since the end of the financial year are:

### **Mr Andrew J Love** BCom, FCA, MAICD

#### ***Independent Non-Executive Director, Chairman – Appointed 5 February 1997***

Mr Love is Chairman of the Board of Directors of ROC and a Fellow of The Institute of Chartered Accountants in Australia. Mr Love is Chairman of Lemur Resources Limited. In the last three years, Mr Love has been Deputy Chairman of Riversdale Mining Ltd and a Non-Executive Director of Charter Hall Office Management Ltd. Mr Love is a member of the Remuneration Committee and the Audit and Risk Committee and is Chair of the Nomination Committee.

### **Mr Alan S Linn** CEng, MChemE

#### ***Chief Executive Officer and Executive Director – Appointed 27 February 2012***

Mr Linn joined ROC in January 2008 as Asset Manager - Africa and in October 2008 was appointed Chief Operating Officer. Mr Linn was appointed as Acting Chief Executive Officer on 29 October 2010 and was appointed as Chief Executive Officer on 23 February 2011. Mr Linn is a chartered chemical engineer with 30 years of international operational and joint venture management experience in both the upstream and downstream oil sectors.

Mr Linn spent 15 years working with EXXON/Mobil in both downstream and upstream assignments in the UK and USA before moving into the independent E & P oil sector working internationally for LASMO, Cairn Energy and Tullow in senior operational and business management roles. Before joining ROC, Mr Linn was Operations Director for African Arabian Petroleum, a privately-owned E & P company headquartered in Dubai. Based in Tunisia, Mr Linn was responsible for all operational and engineering activities within the business' African focused portfolio.

### **Mr Robert C A Leon** MPS, MEcon, ENA

#### ***Independent Non-Executive Director – Appointed 3 December 2008***

Mr Leon is a French national with over 30 years of experience in business and government administration. From 2002 until the merger with ROC in 2008, Mr Leon was a Non-Executive Director of Anzon Energy Pty Limited (formally Anzon Energy Limited) and from 2006 until the takeover by ROC, he was a Non-Executive Director of Roc Oil (VIC) Pty Limited (formerly Anzon Australia Pty Limited). In 1996, Mr Leon co-founded Qualis, a diversified industrial group based in France, of which he is a co-manager. He was Chief Executive Officer of Arnault Group between 1986 and 1997, during which time he managed numerous strategic acquisitions, disposals and financial transactions. Prior to a career in business, Mr Leon held several positions in the French Government administration. He holds degrees in political science and economics, and is a graduate of École Nationale d'Administration in France. Mr Leon is a member of the Audit and Risk Committee.

### **Mr Graham D Mulligan** BSc, Dip Acc, FAIM, MAICD

#### ***Independent Non-Executive Director – Appointed 7 September 2010***

Mr Mulligan is the principal of International Infrastructure Ventures Pty Ltd, an independent consulting company which specialises in providing advisory services to major projects in infrastructure, transport and petroleum. He holds both science and accountancy qualifications and has considerable experience as a senior executive in the international petroleum, infrastructure, transport and resources industries. This included over 16 years with the listed New Zealand Oil & Gas Limited Group as both a Director and senior executive. Mr Mulligan has held a number of other senior executive roles, including Chief Executive Officer of Port of Brisbane Corporation and Managing Director of Port Wellington Limited. He is a former Chairman of the Petroleum Exploration Association of New Zealand, is currently a Director of Chalmers Limited and has held director roles with other listed companies. Mr Mulligan is a member of the Remuneration Committee, the Nomination Committee and the Audit and Risk Committee.

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**Mr Christopher C Hodge MSc, DIC, FFin, MAICD**

***Independent Non-Executive Director – Appointed 7 September 2010***

Mr Hodge is a qualified geologist and petroleum geophysicist with extensive experience both in Australia and overseas. In addition to a variety of senior technical roles, he has held managerial positions in major petroleum exploration and production companies and played significant roles in substantially growing their asset bases through a mix of exploration and acquisition. Most recently, Mr Hodge was Managing Director of ASX-listed Adelphi Energy Limited and is currently the Exploration & Production ('E & P') Advisor to Mitsubishi in Australia. He is a member of the Petroleum Exploration Society of Australia and the American Association of Petroleum Geologists. Mr Hodge is Chair of the Health, Safety and Environment Committee.

**Mr R Michael Harding MSc (Mech Eng)**

***Independent Non-Executive Director – Appointed 1 June 2012***

Mr Harding is the Chairman of Downer EDI Limited and a Non-Executive Director of Santos Limited and Transpacific Industries Group Ltd (with effect from 1 March 2013) as well as being the former Chairman of Clough Limited (2006 - 2010) and a former Non-Executive Director of Arc Energy Limited (2003 - 2007). Mr Harding holds a Master of Science degree and had a 25 year career at BP plc between 1978 and 2003. He held various project and business management positions at BP plc, which provided upstream sector experience in the United Kingdom, South Korea, Western Australia, former USSR, PNG, Malaysia and Thailand. His final position at BP plc was as President and General Manager of BP Exploration Australia. Mr Harding is a former Vice-Chairman and council member of the Australian Petroleum Production and Exploration Association ('APPEA'). Mr Harding is Chair of the Remuneration Committee and is a member of the Nomination Committee and the Audit and Risk Committee.

**Mr Nigel D R Hartley BSc, FCA**

***Independent Non-Executive Director – Appointed 1 June 2012***

Mr Hartley is a Non-Executive Director of Austin Exploration Limited and Phoenix Oil & Gas Limited. Mr Hartley holds a degree in economics, is a Fellow of the Institute of Chartered Accountants in England and Wales, and had a 20 year career at Oil Search Limited between 1991 and 2011, during which time he held various senior financial and executive general manager positions (including 12 years as Chief Financial Officer). His final position at Oil Search was as Executive General Manager Sustainability. Prior to his career at Oil Search Limited, Mr Hartley held financial positions at Rio Tinto and Niugini Mining and was a manager with the accounting and audit firm Peat Marwick Mitchell & Co. Mr Hartley is Chair of the Audit and Risk Committee.

**Directors of the Company who resigned during the financial year are listed below:**

**Mr William G Jephcott BCom, FCPA, FAICD**

***Independent Non-Executive Director, Deputy Chairman – Appointed 5 February 1997 – Resigned 12 December 2012***

Mr Jephcott is an investment banker who specialises in merger and acquisition advice. He also has experience in financing and structuring of major resource projects, including those in the oil and gas industry. Since July 2006, Mr Jephcott has been Special Advisor to Gresham Partners Limited. Previously, Mr Jephcott was Vice-Chairman, Investment Banking Group for Merrill Lynch International (Australia) Limited, Chairman of New South Wales Rugby Union Limited, Non-Executive Chairman of Engin Limited and a Director of Parbury Limited and Ignite Energy Resources Limited. Mr Jephcott was Chair of the Audit and Risk Committee, the Remuneration Committee and the Nomination Committee prior to his resignation on 12 December 2012.

**Mr Sidney J Jansma, Jr MBA**

***Independent Non-Executive Director – Appointed 17 March 1998 – Resigned 17 May 2012***

Mr Jansma is President and Chief Executive Officer of Dominion Midwest Energy, Inc, a wholly-owned subsidiary of Dominion Resources, Inc and was the founder of Wolverine Gas and Oil Corporation. Mr Jansma has served as a member of the Board of Governors of the Independent Petroleum Association of America and Chairman of both its Tax and Environmental Committees. He has also served on the Board of the American Petroleum Institute. He currently serves on the Board and Executive Committee of Calvin Theological Seminary in Grand Rapids, Michigan. Mr Jansma was Chair of the Health, Safety and Environment Committee prior to his resignation on 17 May 2012.

# DIRECTORS' REPORT

Continued

## Company Secretary

**Ms Leanne Nolan** BEc, LLB (Hons), LLM

*Company Secretary – Appointed 29 August 2008*

Ms Nolan is General Counsel and Company Secretary of ROC. Ms Nolan joined the Company in March 1998 and holds Bachelors of Economics and Laws (Hons) and Masters of Law from The University of Sydney. Prior to joining ROC, Ms Nolan held the position of Corporate Counsel with Ampolex Limited and prior to that was employed as a solicitor with Freehills.

**Ms Jacquie Shanahan** BA, LLB

*Assistant Company Secretary – Appointed 30 January 2012*

Ms Shanahan is Legal Counsel and Assistant Company Secretary. Ms Shanahan joined the Company in October 2011 and holds Bachelors of Arts and Laws from The University of Queensland. Prior to joining ROC, Ms Shanahan was involved in the review and monitoring of corporate governance reporting for the ASX, was a senior associate in the corporate commercial practice area at Corrs Chambers Westgarth and was employed as in-house legal counsel for a private company involved in developing sustainable energy projects.

## Directors' Interests

As at the date of this Directors' Report, the relevant interests of the Directors in the fully paid shares and share options of the Company were:

	<b>Ordinary Shares Fully Paid</b>
<b>Non-Executive Directors</b>	
Mr A J Love	689,521
Mr W G Jephcott	1,117,300 <sup>(1)</sup>
Mr S J Jansma, Jr	6,000,000 <sup>(2)</sup>
Mr R C A Leon	1,510,000
Mr G D Mulligan	25,000
Mr C C Hodge	100,000
Mr R M Harding	–
Mr N D R Hartley	12,500
<b>Executive Director</b>	
Mr A S Linn	148,000

(1) As at date of resignation – 12 December 2012.

(2) As at date of resignation – 17 May 2012.

## Directors' Meetings

The following table sets out the number of Directors' meetings (including meetings of committees of Directors) and attendance during the financial year:

	Directors		Remuneration Committee		Nomination Committee		Audit and Risk Committee		Health, Safety and Environment Committee	
	A	B	A	B	A	B	A	B	A	B
Mr A J Love	10	9	4	4	1	1	3	2	-	-
Mr W G Jephcott <sup>(1)</sup>	10	9	4	4	1	1	2	2	-	-
Mr S J Jansma, Jr <sup>(2)</sup>	5	3	-	-	-	-	-	-	2	2
Mr R C A Leon	10	9	-	-	-	-	3	2	-	-
Mr G D Mulligan	10	10	4	4	1	1	3	3	-	-
Mr C C Hodge	10	10	-	1 <sup>(5)</sup>	-	-	-	-	3	3
Mr A S Linn <sup>(3)</sup>	9	9	-	1 <sup>(5)</sup>	-	-	-	2 <sup>(5)</sup>	-	2 <sup>(5)</sup>
Mr R M Harding <sup>(4)</sup>	5	4	-	1 <sup>(5)</sup>	-	-	2	1	-	-
Mr N D R Hartley <sup>(4)</sup>	5	5	-	-	-	-	2	2	-	-

A Number of meetings held during the time that the Director held office during the financial year.

B Number of meetings attended.

(1) Resigned 12 December 2012.

(2) Resigned 17 May 2012.

(3) Appointed 27 February 2012.

(4) Appointed 1 June 2012.

(5) Number of meetings attended as observer.

## Principal Activities

The consolidated entity's principal activities during the course of the financial year were oil and gas exploration, development and production. There were no significant changes in the nature of those activities during the financial year.

## Results

The net profit of the consolidated entity for the financial year after income tax was US\$61.0 million (2011: US\$27.7 million).

## Dividends

No dividends have been paid or declared since the end of the prior financial year and no dividends have been recommended by the Directors in respect of the financial year ended 31 December 2012.

## Review of Operations

A review of the consolidated entity's operations during the financial year and the results of those operations are included in the Discussion and Analysis of Financial Statements on pages 63 to 66.

## Significant Changes in State of Affairs

In the opinion of the Directors, there were no significant changes in the nature of the activities or state of affairs of the consolidated entity during the financial year.



# DIRECTORS' REPORT

Continued

## Subsequent Events

No events have arisen since the end of the financial year that have significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity.

## Future Developments

Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has been omitted from this Directors' Report.

## Share Rights and Options

During the financial year, the Company granted 1,000,000 performance rights over unissued ordinary shares of ROC.

As at the date of this Directors' Report, there were 11,219,000 performance rights and 3,378,000 options (comprising 1,878,000 employee share options and 1,500,000 executive share options) granted over unissued ordinary shares of ROC under ROC's Long Term Incentive Plan, Employee Share Option Plan and Executive Share Option Plan. Refer to Note 24 to the financial statements for further details of the rights and options outstanding. During the financial year, 729,200 ordinary shares were issued as a result of vesting of performance rights. Since the end of the financial year, no ordinary shares were issued as a result of vesting of performance rights or options and no performance rights or options have been granted.

Right and option holders do not have any right, by virtue of the rights or options, to participate in any share issues of the Company or any related body corporate or in the interest issue of any other registered scheme.

## Indemnification of Directors and Officers

An insurance policy has been put in place by the Company for the benefit of past and present Directors of the Company and the executive officers, Directors and secretaries of all Australian group companies. Under this policy, the insurance company has agreed to indemnify these Directors and officers against any claim or for any expenses or costs which may arise as a result of work performed in their respective capacities. The terms of the insurance prohibit disclosure of the nature of the liability and the amount of the premium.

The Company has entered into deeds of indemnity to indemnify directors, secretaries and certain executives of the Company against all liabilities incurred in the course of or arising out of their employment with the Company and its related companies except where the liability results wholly or in part from serious wilful misconduct by the Director, secretary or executive.

## Rounding

The Company is a company of the kind referred to in Australian Securities and Investments Commission Class Order 98/0100, dated 10 July 1998 and, in accordance with that Class Order, amounts in the annual financial statements have been rounded off to the nearest thousand dollars, unless otherwise indicated.

## Remuneration Report

The Remuneration Report is set out on pages 43 to 61 and forms part of the Directors' Report for the financial year ended 31 December 2012.

## Corporate Governance

The Board is responsible for the strategic direction of the Company, the identification and implementation of corporate policies and goals, and the monitoring of the business and affairs of the Company on behalf of its shareholders. The Board delegates responsibility for the day-to-day management of ROC to the Chief Executive Officer. In addition, the Board has established a number of committees to support it in matters which require more detailed consideration. All Directors have unrestricted access to Company records and information and receive detailed financial and operational reports from senior management during the financial year on a monthly basis.

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The Board is currently comprised of six Non-Executive Directors, including the Chairman, and one Executive Director. In accordance with the Company's Constitution and the ASX Listing Rules, the Directors (other than the Chief Executive Officer) are subject to re-election by shareholders every three years.

The Board usually meets on a monthly basis, and where appropriate, hears presentations from senior management who may be questioned directly by Board members on operational and commercial issues.

Details of the Company's corporate governance practices will be included in the Corporate Governance statement in the Annual Report.

### **Audit and Risk Management**

During the financial year, Mr W G Jephcott (Chair up to 12 December 2012), Mr A J Love, Mr R C A Leon, Mr G D Mulligan, Mr R M Harding (from 1 June 2012) and Mr N D R Hartley (from 1 June 2012 and Chair from 12 December 2012) were members of the Company's Audit and Risk Committee. The Audit and Risk Committee is responsible for monitoring the operational and financial aspects of the Company's activities and considers recommendations and advice of internal and external advisors on the operational and financial risks of the Company. The Committee evaluates senior management's assessment of risk and its recommendations in relation to the management of that risk, including hedging policies.

### **Environmental Performance**

The consolidated entity is subject to Commonwealth and State regulations and legislation in Australia. There is similar legislation that governs international operations. The consolidated entity is also a party to various Production Sharing Contracts and exploration and development licences in the countries in which it operates. In most cases, these contracts and licences specify the environmental regulations applicable to oil and gas operations in the respective jurisdictions. Based upon an environmental monitoring system, the consolidated entity aims to ensure that it complies with the identified regulatory requirements in each jurisdiction in which it operates. The Directors are not aware of any material breaches of the environmental obligations of the consolidated entity's contracts or licences. In addition, the Board has established a Health, Safety and Environment Committee. The Committee's responsibility is to ensure that occupational health, safety and environmental standards of the Company's operations are maintained at a level equal to, or above, accepted industry standards and that the Company complies with applicable legislation in the jurisdictions in which it operates.

### **Auditor and Non-Audit Services**

No officer of the Company has previously belonged to an audit practice auditing the Company during the financial year. During the financial year, ROC paid its auditor, Ernst & Young, Australia, the following amount for material non-audit services:

- tax compliance and accounting advice US\$336,598.

The Directors have considered the position and, in accordance with advice received from the Audit and Risk Committee, are satisfied that the provision of these services is compatible with the standards of auditor independence imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out above, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit and Risk Committee to ensure they do not impact the integrity and objectivity of the auditor;
- none of the services undermines the general principles relating to auditor independence as set out in the relevant professional statement, including reviewing and auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards; and
- the non-audit services provided, particularly in relation to tax compliance advice to the internal tax accounting team, are seen as a cost effective and valuable resource to the Company. Expenditure levels vary from year to year depending upon activity levels and regulatory reviews. In addition, with the Company's extensive global operations, comprehensive tax advice across all jurisdictions is regarded as essential. In the circumstances, the Company's auditors are regarded as the most appropriate to provide this advice.

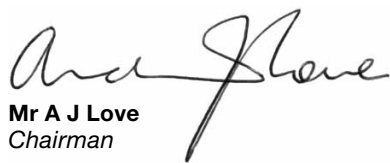
A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is included on page 62.

# DIRECTORS' REPORT

Continued

This Directors' Report is made in accordance with a resolution of the Board of Directors made pursuant to section 298(2) of the *Corporations Act 2001*.

On behalf of the Directors:



**Mr A J Love**  
*Chairman*



**Mr A S Linn**  
*Director and Chief Executive Officer*

Sydney, 27 February 2013

# INTRODUCTION TO REMUNERATION REPORT

**This introduction to the 2012 Remuneration Report does not form part of ROC's statutory Remuneration Report. It should be read in conjunction with the Remuneration Report which follows this introduction and which provides disclosures in accordance with ROC's statutory obligations and with relevant accounting standards.**

ROC's stated corporate strategy through 2011 and 2012 was and remains designed to generate and drive value growth opportunities in the South East Asian region and particularly in China and Malaysia. The Board is confident the strategy to focus on regional core development areas will support long term shareholder growth and returns. In this introduction, the Board seeks to outline briefly the progress of the strategy in 2012; and why the strategy differentiates ROC from its peer group and, as a consequence, why in part ROC's reported costs associated with remuneration are key to ROC's focused growth strategy and the progress but not directly comparable with its Australian peers. Concluding this introduction to the 2012 Remuneration Report is a summary of the Board's intentions in relation to remuneration strategy in 2013.

## 2012 Strategy Success

In 2012, ROC's corporate strategy has resulted in positive progress in a number of key areas of ROC business:

- Share Price – increased 73% for 2012. This exceeded both the ASX 200 Energy Index return of -3% and also the average return from ROC's peer group of 17% for 2012;
- Profits – second successive year of record profit of US\$61 million after tax;
- Net Cash – year end net cash position of \$57 million and an undrawn debt facility available;
- Production – 2012 production at 6,445 BOEPD in line with stated market guidance; and
- Potential future growth opportunities – Balai Cluster in Malaysia commenced pre-development activities and relationships within Malaysian national oil company PETRONAS developed further. In China, Beibu Gulf exploration was successfully completed with commercial discoveries; additionally the Beibu development project is on schedule and nearing completion; in Bohai Bay, a new exploration block was awarded; and relationships with national oil companies, China National Offshore Oil Corporation ('CNOOC') and PetroChina have been further developed and enhanced.

The Board recognises that this success and the ongoing realisation of opportunities in China and South East Asia are directly attributable to the significant corporate presence in the target regions and the calibre of individuals with the skills and experience to consolidate ROC's regional presence and drive and secure existing and future value growth opportunities. The national oil companies ROC deals with regionally are cognisant of the benefits of regionally-based leaders and their presence in both China and Malaysia has created a number of material growth opportunities during 2012.

## Differentiation to Peer Group

ROC's strategy and business model differentiate it from the Australian small-mid cap oil and gas peer group in a number of ways:

- ROC is a full cycle offshore operator of exploration and production assets. The scale and operating capability of ROC's overseas operations is unlike many of ROC's Australian small-mid cap peers.
- In addition to established offshore operations in Australia:
  - China represented 66% of Company production in 2012, growing to potentially 80% in 2013;
  - ROC operates approximately 22,500 BOEPD on behalf of joint venture partners;
  - China and South East Asia, mainly Malaysia, represented the majority of ROC's growth opportunities in 2012 and with ongoing success, this will expand in 2013; and
  - ROC's Beijing office is its largest with approximately 80 staff onshore and over 150 offshore. Malaysia has approximately 90 staff both with ROC and through our joint venture operating company, BC Petroleum Sdn Bhd. Sydney is head office with approximately 35 people looking after the Company regionally and Australian operations; there is also a small office in Perth.
- Key executives and technical/operations management are resident in the regions. Secondments have been in place in China for the past five years with Mr Ron Morris and more recently, in 2011 the Chief Executive Officer, Mr Alan Linn, and the Chief Operating Officer, Mr Rolf Stork, relocated to Malaysia and, following positive progress, that commitment to international operation was increased with relocation of a number of other senior executives in 2012.
- By necessity, the key executives and technical/operations management seconded into the relevant regions are very experienced (>20 years on average) with skill sets that are valued within the industry and typically include significant international operating experience.

# INTRODUCTION TO REMUNERATION REPORT

Continued

## Differentiation to Peer Group (continued)

- A critical role of strong expatriate teams in the regions is to provide the leadership to build and strengthen the managerial and operational skills of the local teams who comprise, in all regional operations, the majority of the employees. In December 2012 the regional work force was split in the proportion of expatriates to nationals in each region as follows:
  - China – expatriate 8%, Chinese nationals 92%; and
  - Malaysia (including joint venture operations) – expatriate 31%, Malaysian nationals 69%.

## Value of Expatriate Costs

As a consequence of ROC's regional strategy, which the Board views as key element to success and value growth, there are incremental business costs flowing from the expatriate secondment of executives.

The Board views these costs as a strategic investment in business growth. The costs typically include upfront relocation costs and the ongoing secondment costs necessary to retain executives within the international marketplace in which ROC operates. ROC designs expatriate packages to ensure executives are no worse off financially regarding family, education and security versus their host country environment. With success, both remuneration and expatriate costs will typically be shared with our joint venture partners resulting in an overall reduction of corporate overhead incurred by ROC. This is very much the case for both Rolf Stork and Ron Morris where ROC receives approximately 65% recovery on their full remuneration package from joint venture partners.

The Board acknowledges that the inclusion of expatriate benefits results in remuneration levels for key management personnel which appear high relative to the Australian peer group. ROC is competing in an international market for talent and to do so needs to remunerate accordingly.

ROC's ability to recruit and retain high calibre resources gives it an edge in building a regional business and also in ensuring there is risk mitigation in our risk growth of regional business units and provides business development support through strong local relationships and regional partners. It is recognised that the regional deployment of senior executives and senior technical professionals reduces business risk by developing good technical understanding of the local geology and "on the ground" management understanding of the optimum route to develop the business securely.

The international-calibre professionals within ROC typically have strong track records in developing national technical teams and management. Long term success in this key area underpins the Company's ability to grow regionally and also helps deliver cost management by ensuring that locally recruited business teams benefit from active technical development. In the longer term, core regional national employees are being developed into management roles. We are at the early stages of this business-building process. It follows that as local talent succession occurs, key objectives are met and ROC's profile, value growth and reputation in various regions are recognised as entrenched. Success allows expatriates to return to or move with ROC to the next value growth opportunity.

The Board endorses the remuneration levels required to support the expatriate secondments and ROC's commitment to grow shareholder value by building on the business strategy in Asia.

## Review of Remuneration Strategy in 2013

Within the context of the Company's corporate strategy the Board, through the Remuneration Committee, is overseeing a review of aspects of ROC's remuneration strategy in 2013 and in particular the performance criteria and conditions associated with "at risk" components of senior executive remuneration. In reviewing both the Short Term Incentive ('STI') and Long Term Incentive ('LTI') plans, consideration will be given to latest trends and market practice with a view to ensuring that ROC's STI and LTI plans are aligned with current best practice. This is expected to involve the introduction of a deferred equity component for STIs and changes to the performance conditions for LTIs.

Other than in relation to the Chief Executive Officer, Mr Alan Linn, these proposed changes to the STI and LTI will apply to the Company and individual performance in the 2013 financial year and to STI and LTIs awarded/paid in early 2014 and future years.

In relation to the Chief Executive Officer, it is proposed that changes made to the STIs and LTIs paid or awarded to Mr Linn will apply from 1 January 2013 and to STIs and LTIs awarded or paid in early 2013. Any equity components requiring shareholder approval will be subject to shareholder approval at the 2013 Annual General Meeting.

Full details of the changes to the remuneration arrangements for Mr Linn and other senior executives will be disclosed in the 2013 Remuneration Report.

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# REMUNERATION REPORT

This Remuneration Report for the year ended 31 December 2012 outlines the key management personnel remuneration arrangements of the Company in accordance with the requirements of the *Corporations Act 2001* ('Act') and its regulations. The disclosures in this Remuneration Report have been audited as required by section 308(3C) of the Act.

## What is in this Remuneration Report?

This Remuneration Report is presented under the following sections:

1. Response to Vote Against 2011 Remuneration Report
2. Key Management Personnel
3. Remuneration Policy and Link to Company Performance
4. The Board's Role in Remuneration and Remuneration Governance
5. Description and Statutory Details of Non-Executive Director Remuneration in 2012
6. Description of Senior Executive Remuneration
7. Company Performance and Remuneration Outcomes for Senior Executives in 2012
8. Statutory Details of Executive Remuneration in 2012
9. Summary of Senior Executive Contractual Arrangements.

## 1. Response to Vote Against 2011 Remuneration Report

At the Company's 2012 Annual General Meeting, the Company received votes against its Remuneration Report representing greater than 25% of the votes cast by persons entitled to vote. As such, the Company recorded what is known as a "First Strike" under the new executive remuneration laws which came into effect under amendments to the Act in 2011.

At the time of the "First Strike" in May 2012, the Company's corporate and remuneration strategies were already in place for 2012. In this respect, the Board was not in a position to make any direct changes to strategy or remuneration for the reporting period.

In response to the "First Strike", the Board has taken the following action:

- remuneration consultant Aon Hewitt has been retained by the Remuneration Committee to undertake a comprehensive compensation review across the organisation globally;
- the Remuneration Committee is conducting a full review of performance criteria and conditions associated with the short term and long term incentive plans to ensure that ROC's STI and LTI plans are aligned with latest trends and current best practice. Some of these changes may be implemented in 2013; others will take time to design and implement and will be integrated into the remuneration arrangements for 2014 and beyond;
- the contractual arrangements of the Chief Executive Officer, Mr Alan Linn are currently being renegotiated and the intention is that the terms of the STI and LTI applicable to Mr Linn are to change with effect from 1 January 2013;
- the Chairman and a member of the Board's Remuneration Committee initiated engagement with proxy advisors to discuss the Board's response to the "First Strike" and how the Board was addressing the issues and concerns raised by proxy advisors on the 2011 Remuneration Report;
- in this 2012 Remuneration Report more detailed disclosures have been included for the payment of STIs to senior executives and the evaluation process undertaken when assessing these awards; and
- in the introduction to this Remuneration Report the Board has provided explanation for the strategies supporting the levels of remuneration paid to senior executives and in particular the senior executives on secondment.

# REMUNERATION REPORT

Continued

## 1. Response to Vote Against 2011 Remuneration Report (continued)

Specifically, in response to the criticism of the Chief Executive Officer, Mr Alan Linn's total remuneration in 2011 compared with that of his peers, the Board notes that a significant portion of the increase in Mr Linn's total remuneration in 2011 was attributable to his relocation and secondment in Malaysia. Whilst secondment costs remain a component of Mr Linn's total remuneration in 2012 (which may again be considered relatively high in comparison to that of his peers), the Board continues to believe that total remuneration for Mr Linn, and all other senior executives on secondments in Asia, is appropriate and warranted. The Board notes that Mr Linn's fixed remuneration component decreased in 2012 from that in 2011.

The Board also notes that the Remuneration Committee is currently in the process of renegotiating Mr Linn's contractual arrangements and in particular those components of Mr Linn's remuneration that are linked to Company and individual performance.

At the date of this report, the new terms of contract have not yet been finalised. As soon as all terms are settled, the details will be released to the market.

Any equity components of Mr Linn's remuneration will be subject to shareholder approval at the Company's next Annual General Meeting ('AGM'), and details of any proposed grants will be disclosed in the notice of meeting. Full details of Mr Linn's agreed new remuneration structure, and the proposed changes for other senior executives, will be disclosed in the 2013 Remuneration Report.

## 2. Key Management Personnel

For the purpose of this report Key Management Personnel ('KMP') of the Company are defined as those persons having authority and responsibility for planning directing and controlling the major activities of the Company directly or indirectly.

The following have been identified as KMP for the purpose of this Remuneration Report:

### **Non-Executive Directors**

Mr A J Love	Chairman (Non-Executive)
Mr W G Jephcott	Director (Non-Executive) (resigned 12 December 2012)
Mr S J Jansma, Jr	Director (Non-Executive) (resigned 17 May 2012)
Mr R C A Leon	Director (Non-Executive)
Mr G D Mulligan	Director (Non-Executive)
Mr C C Hodge	Director (Non-Executive)
Mr R M Harding	Director (Non-Executive) (appointed 1 June 2012)
Mr N D R Hartley	Director (Non-Executive) (appointed 1 June 2012)

### **Chief Executive Officer and Executive Director**

Mr A S Linn	Chief Executive Officer (appointed 23 February 2011) and Executive Director (appointed 27 February 2012)
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### **Senior Executives**

Mr R Morris	President - Roc Oil (China) Company
Mr R B Stork	Chief Operating Officer
Mr A Neilson	Chief Financial Officer
Ms L Nolan	General Counsel and Company Secretary
Dr P Eliet	General Manager – Exploration, Geoscience & Business Development (appointed 13 September 2012).

In this report, a reference to senior executive includes the Chief Executive Officer and Executive Director, Mr Alan Linn.

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### 3. Remuneration Policy and Link to Company Performance

#### Remuneration Policy

In 2012, the key business strategy of the Company was to focus the Company's growth in Asia generally and Malaysia and China specifically. The oil and gas market in these regions is a highly competitive and with a high degree of employment mobility across the sector. Within this context the Company's remuneration policy is designed to:

- align the interests of employees and shareholders by linking individual and Company performance with remuneration outcomes;
- reward employees for financial and non-financial performance aligned with business objectives; and
- drive behaviour and focus performance in alignment with business objectives by setting key performance measures and targets for individuals and the Company aligned with these objectives.

#### Link to Performance

The Company's remuneration policy for senior executives is to reward performance by:

- attracting motivating and retaining high performing individuals focused on achieving the Company's objectives by offering fixed remuneration to align with the respective roles and responsibilities in the market in which the executive is located;
- linking the reward of senior executives with "at risk" incentives based on short term performance goals aligned and linked with Company goals and objectives which are set and reviewed annually; and
- aligning the longer term "at risk" incentive rewards with expectations and outcomes that match shareholder objectives and interests by:
  - measuring longer term performance against shareholder return over the same period;
  - benchmarking shareholder return against a peer group of comparator companies;
  - assessing the performance over a longer period of time (three years); and
  - giving equity-based rather than cash-based rewards as Long Term Incentives.

Currently the remuneration policy makes no provision for clawback in the event of over-payment of a senior executive in the event of a material misstatement or omission in the Company accounts. In relation to STI and LTI opportunities for 2013 and beyond, it is intended that the Board will have a broad absolute discretion to determine that some or all of an executive's incentive opportunity or unvested equity awards may be forfeited if adverse circumstances have occurred that affect the performance or reputation of the Company.

Expatriate costs should be considered separate from fixed remuneration and performance-based incentives. The structure and amount of expatriate benefits are reflective of additional living costs and circumstances specific to the international location to which the executive is assigned. The impact of assigning senior executives to key locations should be reflected in long term value creation.

The Company's remuneration policy in relation to Non-Executive Directors is to apply a level of remuneration determined having regard to the Company's need to retain appropriately experienced and qualified directors and in accordance with competitive pressures in the marketplace. Remuneration levels for Non-Executive Directors are designed to attract and retain directors, motivate directors to achieve the Company's business objectives and to align the interests of directors with the long term interests of shareholders. Non-Executive Directors are not provided with performance-based incentives and are expected to acquire or accumulate an equity interest in the Company over their term of office.



# REMUNERATION REPORT

Continued

## 4. The Board's Role in Remuneration and Remuneration Governance

The Board has responsibility for making decisions about the remuneration of KMP. The Board engages with shareholders, management and other stakeholders as required to update and improve Company remuneration policies and practices and ensure remuneration practices are aligned with Company strategy and objectives.

In January 2012, the Board adopted an updated suite of corporate governance documents including a stand-alone Remuneration Committee Charter. A consequence of this was that a separately constituted Remuneration Committee of the Board was established where formerly a combined Remuneration and Nomination Committee existed.

### Remuneration Committee

The Remuneration Committee comprises three independent Non-Executive Directors and meets throughout the year. Details of the Remuneration Committee meetings and attendance are outlined in the Directors' Report.

The Remuneration Committee is responsible for making recommendations to the Board on remuneration policies applicable to the Board and employees of the Company, including compensation arrangements for senior executives, fees for Non-Executive Directors and the Long Term Incentive Plan and Short Term Incentive Plan. Senior executive performance reviews are also considered by the Remuneration Committee.

Remuneration levels are reviewed annually by the Remuneration Committee through a process that evaluates the appropriateness of remuneration packages given trends in comparative companies and the objectives of the Company's remuneration strategy. Fixed remuneration levels and remuneration packages are benchmarked against independently provided remuneration data of comparable Australian and energy and resources companies to ensure salary packages are reasonable and competitive but not excessive. The Company participates in industry forums and maintains an ongoing monitor of trends and developments within the broad and specific market. Total reward potential is targeted to provide the opportunity to earn top percentile rewards against the relevant industry benchmarks for outstanding performance against personal and business objectives set.

Further details of the Company's remuneration policy will be included in the Corporate Governance statement in the Annual Report and copies of the Remuneration Committee Charter and Remuneration Policy are available at [www.rocoil.com.au](http://www.rocoil.com.au).

### Remuneration Consultant

In 2012, the Remuneration Committee engaged an independent remuneration consultant Aon Hewitt ('Consultant') to review the Company's remuneration programmes and practices and provide benchmarking of fixed and "at risk" remuneration. Further advice has been sought in relation to STI and LTI plans, expatriate arrangements and other contemporary good governance remuneration practices.

The Consultant has made recommendations in relation to a range of remuneration matters including remuneration recommendations for KMP.

The Consultant was paid \$87,450 for the review of remuneration and \$19,822 for all other services provided in the reporting period.

The members of the Remuneration Committee liaised directly with the Consultant and management was only involved to the extent of providing factual information to the Consultant. In this regard, the Remuneration Committee and the Board are satisfied that the remuneration recommendations made by the Consultant were made free from undue influence by any of the KMP to whom the recommendations related.

## 5. Description and Statutory Details of Non-Executive Director Remuneration in 2012

The Company's Constitution specifies that the aggregate remuneration of Non-Executive Directors will be determined by a general meeting. At the 2011 AGM, shareholders approved total remuneration for all Non-Executive Directors of up to A\$750,000 per annum. Fees are set based on review of external market information in relation to fees paid to non-executive directors of comparable companies.

Non-Executive Directors' fees for the 2012 financial year were a total of US\$610,535.

There has been no change to the base fees paid to Non-Executive Directors between 2011 and 2012. The amounts paid in 2011 and 2012 in Australian dollars are as follows:

- Chairman AUD 110,000;
- Deputy Chairman AUD 90,000; and
- Non-Executive Directors AUD 75,000.

No additional fees are paid for sitting on Board committees.

Non-Executive Directors do not receive any incentive-based remuneration or employee share rights or options and do not receive any retirement benefits other than statutory entitlements.

The Remuneration Committee has made no recommendations to the Board in 2012 to increase Non-Executive Director remuneration.

The following table sets out the remuneration of the Non-Executive Directors for the financial years ended 31 December 2012 and 2011. All of the Non-Executive Directors are paid in Australian dollars. As a result, the USD amounts shown are affected by foreign currency movements between years. The exchange rate used is the average for the period. The AUD/USD average rate used for 2012 was 1.0359 (2011: 1.0318).

		Short Term		Post	Equity	Total	Percentage Performance Related	
		Fees	Cash bonus	Employment	Compensation			
		US\$	US\$	Super- annuation	Value of Share Rights/Options	US\$	%	
<b>Non-Executive Directors</b>								
<b>Mr A J Love</b>	<b>2012</b>	<b>113,949</b>	–	–	<b>10,255</b>	–	<b>124,204</b>	–
	2011	113,498	–	–	5,107	–	118,605	–
<b>Mr W G Jephcott<sup>(1)</sup></b>	<b>2012</b>	<b>93,231</b>	–	–	<b>8,391</b>	–	<b>101,622</b>	–
	2011	92,862	–	–	8,358	–	101,220	–
<b>Mr S J Jansma, Jr<sup>(1)</sup></b>	<b>2012</b>	<b>38,846</b>	–	–	–	–	<b>38,846</b>	–
	2011	77,385	–	–	–	–	77,385	–
<b>Mr R C A Leon</b>	<b>2012</b>	<b>77,693</b>	–	–	–	–	<b>77,693</b>	–
	2011	77,385	–	–	–	–	77,385	–
<b>Mr G D Mulligan</b>	<b>2012</b>	<b>77,693</b>	–	–	<b>6,992</b>	–	<b>84,685</b>	–
	2011	77,385	–	–	6,965	–	84,350	–
<b>Mr C C Hodge</b>	<b>2012</b>	<b>77,693</b>	–	–	<b>6,992</b>	–	<b>84,685</b>	–
	2011	77,385	–	–	6,965	–	84,350	–
<b>Mr R M Harding<sup>(2)</sup></b>	<b>2012</b>	<b>45,321</b>	–	–	<b>4,079</b>	–	<b>49,400</b>	–
	2011	–	–	–	–	–	–	–
<b>Mr N D R Hartley<sup>(2)</sup></b>	<b>2012</b>	<b>45,321</b>	–	–	<b>4,079</b>	–	<b>49,400</b>	–
	2011	–	–	–	–	–	–	–
<b>Total</b>	<b>2012</b>	<b>569,747</b>	–	–	<b>40,788</b>	–	<b>610,535</b>	
	2011	515,900	–	–	27,395	–	543,295	

(1) Mr W G Jephcott resigned as a Non-Executive Director on 12 December 2012. Mr S J Jansma, Jr resigned as a Non-Executive Director on 17 May 2012.

(2) Two Non-Executive Directors were appointed on 1 June 2012.

# REMUNERATION REPORT

Continued

## 6. Description of Senior Executive Remuneration

This section details the remuneration structure for senior executives (including the Chief Executive Officer and Executive Director) that applied to remuneration paid in 2012. Note: the changes foreshadowed to the Chief Executive Officer and other senior executives remuneration do not apply to remuneration paid in 2012. These changes will apply to remuneration granted to the Chief Executive Officer from 2013 and other senior executives from 2014.

### Remuneration mix

<b>What is the balance between fixed and "at risk" remuneration?</b>	<p>The remuneration structure and packages offered to senior executives for the period were:</p> <ul style="list-style-type: none"> <li>• fixed remuneration; and</li> <li>• performance based remuneration consisting of an "at risk" component which may be offered at the discretion of the Board and comprising:             <ul style="list-style-type: none"> <li>– Short Term Incentive - an annual cash bonus set as a percentage of base salary linked to Company and individual performance ('STI'); and</li> <li>– Long Term Incentive – grant of rights convertible to equity on the attainment of performance conditions measured over an extended period ('LTI').</li> </ul> </li> </ul> <p>In 2012, the actual paid or expensed "at risk" performance-based remuneration comprised on average 20% of total remuneration paid to senior executives.</p>
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### Fixed remuneration

<b>What is fixed remuneration?</b>	Fixed remuneration consists of base salary (which is calculated on a total cost basis and includes any tax charges related to employee benefits), as well as employer contributions to superannuation funds.
<b>How is fixed remuneration reviewed?</b>	<ul style="list-style-type: none"> <li>• Fixed remuneration levels are reviewed annually through a process that considers external data and takes into account the overall performance of the Company and the senior executive to ensure that remuneration is appropriate and competitive in the markets the senior executive is located. There is no contractual requirement or expectation that any adjustments will be made.</li> <li>• In determining fixed remuneration of senior executives, the Remuneration Committee has regard to the following:             <ul style="list-style-type: none"> <li>– top quality leaders in the competitive oil and gas sector with the ability to operate in a complex business environment across diverse geographies and cultures can command a premium relative to the pay of executives of similar companies of similar size whose business is predominantly locally focused;</li> <li>– independently-provided market remuneration data of comparable Australian and energy and resources companies provides a reference in setting fixed remuneration and determining executive pay structures. However, the Company needs to actively compete for highly skilled exploration and production executives in a global market. The commercial and practical reality is that the benchmarking of some of our executives is by necessity qualitative and subjective based upon the judgement of the Remuneration Committee with a prudent approach to both the cost and the retention risk; and</li> <li>– rewarding and retaining the senior executives with the requisite experience so as not to lose them in the competitive oil and gas sector.</li> </ul> </li> </ul>

### Short Term Incentive

<b>What is the STI?</b>	The STI is a cash payment assessed and paid annually to senior executives and other eligible employees following the end of the Company's financial year and measured on individual and Company performance over the preceding 12 month period.
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<p><b>What is the purpose of the STI Plan?</b></p>	<p>The purpose of the STI plan is to drive performance of annual business plans and objectives at both an individual and corporate level to achieve shareholder value.</p> <p>The STI forms part of ROC's performance-based remuneration system and provides "at risk" incentives based on short term performance goals aligned and linked with Company goals and objectives.</p>
<p><b>How does the STI link to ROC's objectives?</b></p>	<p>ROC objectives are set by the Board on an annual basis and key performance measures are set annually for all employees and senior executives to support the Company objectives.</p> <p>The STI is linked to ROC objectives in that it is not triggered or payable unless the relevant employee has met or exceeded the key performance measures outlined in their individual performance plans set annually. Any STI payable is also subject to the Board's assessment of the performance of the Company against the Company objectives set for the relevant year.</p>
<p><b>What are the performance conditions?</b></p>	<p>The performance conditions are Company performance conditions and individual performance conditions. Measurement of performance of both sets of conditions influence the STI payable.</p> <p><b>Company Performance</b></p> <p>The Company performance conditions reflect the financial and operational goals of the Company that are essential to meeting the Company's short and long term strategy and building shareholder value.</p> <p>The Board sets these strategic goals annually and built within each goal are specific annual objectives or targets against which the Board can measure Company performance.</p> <p>For the purpose of the STI, the Board rates Company performance at the end of the financial year against each strategic goal set, the level of achievement of each objective or target within each strategic goal and the weightings attributed to the individual goals and objectives</p> <p>Details of the 2012 strategic goals and the weightings attributed to each are set out in section 7, together with the actual Company performance against these goals.</p> <p><b>Individual Performance</b></p> <p>Individual performance conditions are set for each employee at the commencement of the financial year as part of the each individual's performance management plan. These performance conditions are partly specific to each individual's role and responsibilities and partly aligned to achieving the strategic goals of the Company and in particular achieving the Company objectives or targets set for the relevant year.</p> <p>It is inappropriate to outline specific performance conditions for senior executives in this report but the typical performance measures for individuals would include meeting key operational objectives relating mainly to:</p> <ul style="list-style-type: none"> <li>• production targets;</li> <li>• health, safety and environment measures;</li> <li>• people measures;</li> <li>• expenditure controls</li> <li>• profitability; and</li> <li>• business development and value growth.</li> </ul>

# REMUNERATION REPORT

Continued

## 6. Description of Senior Executive Remuneration (continued)

### Short Term Incentive (continued)

<b>Are there different performance levels?</b>	<p>Different performance levels apply to both assessment of individual and Company performance in relation to the award of an STI.</p> <p>Performance levels for individuals are set in a range from below expectations (1/5) to exceed expectations (5/5). An individual must achieve a performance rating of at least 2/5 to receive a minimum STI.</p> <p>Company performance levels are assessed by the Board at the end of the financial year with the rating attributed to Company performance based on achievement of objectives or targets in the relevant year.</p> <p>The Company performance rating is used as a multiplier to the individual performance rating to determine the level of STI actually payable.</p> <p>Maximum STI would only ever be payable if the individual performance level was rated as exceeds expectations and the assessment of the Company performance by the Board was at the highest level and exceeded expectations for the targets set.</p>												
<b>What is the value of the STI award that can be earned?</b>	<p>The maximum STI payment amount is set as a proportion of the base salary of the individual employee. Higher level roles attract an increased % of base salary payable as STI. The maximum percentages of base salary payable as STIs are as set out in the following table. These maximums are only achievable if both the individual performance rating and the Company performance rating are at the maximum levels:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: left;"><b>Roles</b></th> <th style="text-align: right;"><b>Maximum STI as % of Base - 2012</b></th> </tr> </thead> <tbody> <tr> <td>Chief Executive Officer</td> <td style="text-align: right;">57%</td> </tr> <tr> <td>Executive Committee</td> <td style="text-align: right;">42%</td> </tr> <tr> <td>Senior Managers, Senior Professionals</td> <td style="text-align: right;">32%</td> </tr> <tr> <td>Professionals, Team Leaders</td> <td style="text-align: right;">22%</td> </tr> <tr> <td>Front-Line Employees, Administrative and Support Staff</td> <td style="text-align: right;">19%</td> </tr> </tbody> </table> <p>Details of amounts of STI paid in 2012 and amounts forfeited are set out in section 7.</p>	<b>Roles</b>	<b>Maximum STI as % of Base - 2012</b>	Chief Executive Officer	57%	Executive Committee	42%	Senior Managers, Senior Professionals	32%	Professionals, Team Leaders	22%	Front-Line Employees, Administrative and Support Staff	19%
<b>Roles</b>	<b>Maximum STI as % of Base - 2012</b>												
Chief Executive Officer	57%												
Executive Committee	42%												
Senior Managers, Senior Professionals	32%												
Professionals, Team Leaders	22%												
Front-Line Employees, Administrative and Support Staff	19%												
<b>How are the performance conditions assessed?</b>	<p>Calculation of the STI payment is based on a combination of two performance components – individual and Company performance.</p> <p>The individual performance component is determined by the employee's performance rating achieved through the ROC performance management system. Individual performance ratings are calibrated by the executive team and, as appropriate, the performance rating is adjusted to allow further distinction between individual performances.</p> <p>The Company performance STI outcome is based on the Board's assessment of performance against a range of targets that contribute to ROC strategy. These objectives will vary each year. The Company's objectives for 2012 are outlined above and in section 7.</p> <p>The Board makes a decision on the final company performance rating based on overall performance against these areas and against a range of strategic targets. The maximum Company rating in any year is 5/5. Once the Company performance rating is determined by the Board, an individual's STI is then calculated by reference to the individual's own performance rating and as a percentage of salary.</p>												

## Long Term Incentive

<b>What is the LTI?</b>	The LTI is an equity-based plan that provides for a reward that varies with Company performance over three year measures of performance.
<b>What is the purpose of the LTI?</b>	<p>The purpose of the LTI plan is to focus performance on drivers of long term shareholder value over a three year period so that over emphasis is not put on achieving short term performance to the detriment of longer term growth.</p> <p>The LTI forms part of ROC's performance-based remuneration system and provides "at risk" incentives based on longer term performance goals aligned and linked with Company goals and objectives.</p>
<b>How does the LTI link to ROC's key objectives?</b>	<p>The LTI links to ROC's key objectives by aligning long term "at risk" incentive rewards with expectations and outcomes that match shareholder objectives and interests by:</p> <ul style="list-style-type: none"> <li>• measuring longer term performance against shareholder return over the same period;</li> <li>• benchmarking shareholder return against that of a peer group of comparator companies;</li> <li>• assessing the performance over a longer period of time (three years); and</li> <li>• giving equity-based rather than cash-based rewards as LTIs.</li> </ul>
<b>What equity-based grants are given and are there plan limits?</b>	<p>The LTI provides for the grant of performance rights convertible to shares on vesting if performance conditions are met. If the performance conditions are met, recipients of the performance rights are entitled to receive one share in ROC for every vested performance right. Once a right vests, the holder is unconditionally entitled to the underlying share without taking any further action.</p> <p>Subject to a number of conditions, the Board may not issue performance rights under the LTI plan if immediately following the grant, the number of shares the subject of the grant of the right when aggregated with all other rights on issue could exceed 5% of the total number of issued shares in the Company at the time of issue of the rights.</p>
<b>What are the performance conditions?</b>	<p>Three types of performance rights can be granted or awarded under the ROC LTI plan. The distinguishing feature of each right is that different performance conditions apply to the vesting of each type of right granted. The different rights that can be granted are:</p> <ul style="list-style-type: none"> <li>• <b>Tier One Rights</b> – these are subject to an actual Total Shareholder Return ('TSR') performance condition;</li> <li>• <b>Tier Two Rights</b> – these are subject to a relative TSR performance condition; and</li> <li>• <b>Tier Three Rights</b> – these are subject to a retention of service condition.</li> </ul> <p>Regardless of performance conditions that apply, no right will vest unless the Board in its absolute discretion is also satisfied that there has been an overall satisfactory and sustained improvement in the performance of the Company during the relevant performance period.</p> <p>An award of performance rights may consist of any combination of tiers of rights provided that no award of rights can comprise more than 20% of Tier Three Rights. Unless otherwise stated an award of rights would be 40% Tier One Rights, 40% Tier Two Rights and 20% Tier Three Rights.</p> <p>Performance and service conditions attached to each tier are as follows:</p> <ul style="list-style-type: none"> <li>• <b>Tier One Rights</b> Vesting of Tier One Rights is subject to a performance condition, and, except for initial rights granted in 2010 which were for two years, will occur three years after grant, to the extent that the performance condition is met and if the employee is still employed. Tier One Rights which have not vested at the end of the performance period will lapse.</li> </ul>

# REMUNERATION REPORT

Continued

## 6. Description of Senior Executive Remuneration (continued)

### Long Term Incentive (continued)

The performance condition for Tier One Rights will relate to the TSR growth of ROC measured over the performance period and be calculated based on compounded annual rates. The percentage of Tier One Rights that vest will be determined as follows:

TSR Growth over Performance Period Based on Annual Growth Rates	% of Rights Vesting
<6%	0%
6% – 9%	Pro rata from 25% to 50%
9% – 12%	Pro rata from 51% to 100%
>12%	100%

'Total shareholder return' or 'TSR' means the total of:

- all dividends and capital returns paid to shareholders in the period between the date of grant of the right and the date the performance condition is measured; and
- the difference between the volume weighted average price for sales of ROC ordinary shares ('Shares') on the ASX in the 60 trading days before the date on which the performance condition is measured and the volume weighted average price for sales of the Shares on the ASX in the 60 trading days before the date of grant,

expressed as a percentage of the volume weighted average price for sales of the Shares on the ASX in the 60 trading days before the date of grant (with the volume weighted average price for sales of the Shares adjusted if necessary to take account of any reorganisation of capital occurring before the date on which the performance condition is measured), where "trading day" has the meaning given to that term in the ASX Listing Rules.

- **Tier Two Rights**

Vesting of Tier Two Rights will be subject to a performance condition, and, except for initial rights granted in 2010 which were for two years, will occur three years after grant, to the extent that the performance condition is met and if the employee is still employed. Tier Two Rights which have not vested at the end of the performance period will lapse.

The performance condition for Tier Two Rights will be a relative TSR test. The TSR of ROC will be ranked against that of a subset of conventional oil and gas exploration and development companies in Australia (including ROC) and other companies in the S&P/ASX 300 Energy Index list as determined by the Board from time to time at the beginning of the performance period ('Comparator Group'). The TSR calculations will be based on all dividends and capital returns paid to shareholders in the performance period, and the difference between the volume weighted average daily closing share prices in the 60 days immediately preceding the start and the 60 days immediately preceding the end of the performance period expressed as a percentage. The extent to which Tier Two Rights will vest is determined by reference to the position of the Company in the Comparator Group as calculated in accordance with the following ranking table:

Position of Company in Comparator Group	% of Rights Vesting
Below Median	0%
Median	50%
Between Median and Upper Quartile	Pro rata from 50% to 100%
Upper Quartile and above	100%

	<ul style="list-style-type: none"> <li>• <b>Tier Three Rights</b> Vesting of Tier Three Rights will be subject to a service condition only. Tier Three Rights will vest provided that the employee has been continuously employed by the Company throughout the performance period and is employed by the Company on the vesting date. Tier Three Rights which have not vested at the end of the performance period will lapse. Tier Three Rights must not exceed 20% of the total number of rights comprising an award.</li> </ul>
<b>Why choose these performance conditions?</b>	At the time of establishing the ROC LTI plan in 2010, performance hurdles based on absolute TSR and relative TSR against comparable companies was regarded as an appropriate way to align senior executive remuneration with shareholder value. Likewise, the service condition only on the Tier Three Rights was regarded as an appropriate way to retain key individuals. A review of Comparator Group's LTI plans was also conducted to ensure there was appropriate benchmarking conducted and ROC's plan was not misaligned with the industry.  These measures are under review in 2013.
<b>Hedging of rights or options</b>	The Company prohibits executives from entering into arrangements to protect the value of unvested LTI or option awards. The prohibition includes entering into contracts to hedge their exposure to rights or options granted as part of their remuneration package.
<b>Leaving Employment</b>	Subject to some exceptions such as death, injury, permanent disability, retirement or redundancy and at the discretion of the Board, a right will normally lapse if the employee ceases to be employed by the Company.
<b>Lapse of Rights</b>	If performance conditions are not met on the vesting date applicable to the performance right, the performance right will lapse.
<b>Effect of change of control</b>	In the event of a change of control in the Company before the vesting date of a performance right, the Board reserves the right to exercise its discretion for early vesting of the right. In exercising its discretion the Board is required to take account of the extent to which performance conditions have or have not been met since the date of the grant of the performance right.

## Previous Executive and Employee Share Option Plans

Prior to the introduction of the STI and LTI in 2010, the Company's remuneration policy included participation in an Executive Share Option Plan and an Employee Share Option Plan. Options granted under these plans continue to exist but no further options are granted under these plans. Any options vesting under these plans in the 2012 financial year to executives are outlined in tables below.

The ability to exercise options under the Executive Share Option Plan is subject to continuity of employment and certain share and industry peer group performance hurdles. Under the rules of the Executive Share Option Plan, 30% of the options granted vest after two years. An additional 30% vest after three years and the remaining 40% vest after four years. Options expire six years after they are granted. Of the options granted to an employee, 50% are performance options and only exercisable if certain share performance benchmarks are met and 50% are price options which require share price performance measures to be met.

Performance options may only be exercised if, between the date of vesting and the date of exercise, the performance hurdles are satisfied. The performance hurdles provide that the Company's TSR must be benchmarked against industry performance.



# REMUNERATION REPORT

Continued

## 6. Description of Senior Executive Remuneration (continued)

### Previous Executive and Employee Share Option Plans (continued)

The performance hurdle requires that the Company's TSR must be more than:

- 100% of the percentage increase in the S&P/ASX 200 Energy Index at any time after the vesting date for 50% of the relevant performance options to be exercised;
- 110% of the percentage increase in the S&P/ASX 200 Energy Index at any time after vesting for 75% of the relevant performance options to be exercised; and
- 120% of the percentage increase in the S&P/ASX 200 Energy Index at any time after the vesting date for 100% of the performance options to be exercised.

The exercise price of the price options is calculated as 115%, 122.5% and 130% of the volume weighted average price for the sale of shares on the ASX in the 90 days before the issue date.

Under the Employee Share Option Plan, the options granted vest after two years. Options expire five years after they are granted. The exercise price of the options is the price of the sale of shares on the ASX on the day of the grant.

## 7. Company Performance and Remuneration Outcomes for Senior Executives in 2012

ROC remuneration policy is designed to align the interests of employees and shareholders by linking individual and Company performance with remuneration outcomes; reward employees for financial and non-financial performance aligned with business objectives; and drive behaviour and focus performance in alignment with business objectives by setting key performance measures and targets for individuals and the Company aligned with these objectives.

Following is a table outlining Company performance against stated objectives in 2012 and a graph indicating relative share price performance in the same period. Following that is a summary of the senior executives' fixed, STI and LTI remuneration in 2012.

### Company Performance in 2012

Goal	Weighting	Objectives	Outcome
<b>Generate Opportunities</b>	17.5%	Focus on appraisal/ development opportunities	Met expectations with Balai Cluster pre-development and Beibu Gulf exploration completed and development commenced and on track.
		Identify new exploration opportunities	Met expectations with new China 09/05 exploration block (Bohai Bay) awarded in 2012. Other South East Asia targets have been reviewed and screened during 2012 with opportunities identified for further development in 2013.
<b>Capture Value</b>	27.5%	Achieve reserve growth from existing assets	Met expectations with 2P reserve upgrade of 2.4 MMBOE achieved to 15.0 MMBOE in total: <ul style="list-style-type: none"> <li>• reserve replacement of 100% of current year production;</li> <li>• Beibu Gulf exploration success with additional reserves; and</li> <li>• reserve optimisation at other assets occurring.</li> </ul>
		Deliver reserve growth from new opportunities in focus region	Actively pursuing growth opportunities.

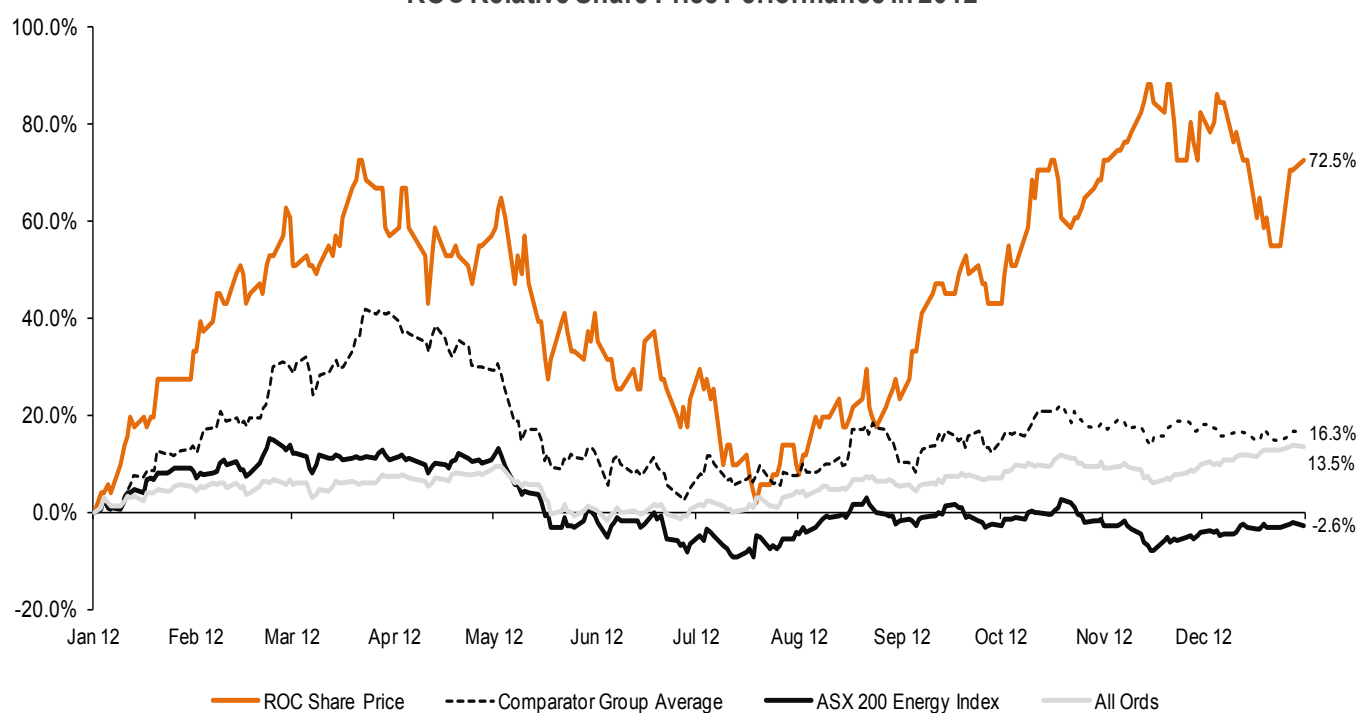
Goal	Weighting	Objectives	Outcome
<b>Deliver Excellence</b>	27.5%	Meet production target (6,000 7,000 BOEPD)	Met expectations with 2012 production of 6,445 BOEPD.
		Control costs across the business (opex ~US\$17/BOE; capex <US\$140 million)	Exceeded expectations with all costs controlled across the business. Opex ahead of target at US\$15/BOE; total capex of \$109 million consisting of E & D spend of \$94 million plus BMG NPP of \$15 million.
		Continue to build upon positive health, safety and environment ('HSE'), community and sustainability performances	ROC set high HSE targets for 2012. Whilst these were not all met, ROC continued its strong HSE performance with all metrics better than APPEA industry averages.
		Continue portfolio rebalancing in line with regional growth strategy	Met expectations with NZ exit completed and Africa divestment of Mauritania completed with US\$10 million profit.
<b>Fiscal Discipline</b>	27.5%	Deliver continued profitability	Exceeded expectation with a continuing and record profit of US\$61 million after tax.
		Optimise capital structure and secure funding for new projects	Exceeded expectations with year-end net cash position of US\$57 million and an undrawn debt facility available.

Following assessment of the Company performance in accordance with the above objectives, the Board takes into account the share price performance over the year as a final overriding factor:

<b>Share Price</b>	Used by Board as key determining factor	Deliver positive share price performance on absolute and comparative basis	Exceeded expectations with share price increasing 73% for 2012 and top quartile performance against peer group for 2012.
--------------------	-----------------------------------------	----------------------------------------------------------------------------	--------------------------------------------------------------------------------------------------------------------------

As set out in the graph below, the Company's share price increased by 73% in 2012 outperforming each of the ASX 200 Energy Index, the All Ordinaries Index and the Comparator Group.

### ROC Relative Share Price Performance in 2012



# REMUNERATION REPORT

Continued

## 7. Company Performance and Remuneration Outcomes for Senior Executives in 2012 (continued)

Below is a table setting out Company earnings and ROC year-end closing share price for the last five years:

	2012	2011	2010	2009	2008
Net profit/(loss) after tax (US\$'million)	61.0	27.7	(35.9)	(115.4)	(278.4)
Share Price (31 December)	44¢	25.5¢	41¢	67¢	50¢

Taking all of the above into account the Board concluded that the Company performance in 2012 was exceptional and attributed it with an overall performance rating of 4/5.

### Fixed Remuneration Outcomes for Senior Executives in 2012

Following the 2011 year end all senior executives were reviewed in accordance with:

- the ROC performance management plan and their performance measured against the specific goals and objectives that had been set for them at the commencement of 2011; and
- ROC remuneration policy and benchmarking processes.

On conclusion of these performance reviews, senior executive remuneration was set for 2012.

As explained in the introduction to this report, significant increases in fixed remuneration are acknowledged in relation to China and Malaysian expatriated senior executives. These increases can partly be attributed to industry benchmarking in Asia as well as performance. In the case of Mr Stork and Ms Nolan, there was also an adjustment to take account their new responsibilities and wider scope of work resulting from their move to Asia.

Mr Morris's remuneration was adjusted in 2012 to reflect the change in position and the additional responsibilities and wider scope and span of control following increased activities in China.

It is noted that the fixed remuneration of the Chief Executive Officer, Mr Alan Linn, decreased in 2012. This reduction was a result of an agreed reduction in fixed remuneration as well as some readjustment to non-monetary benefits.

### STI Outcomes for Senior Executives in 2012

All senior executives' performance was assessed as being eligible for an STI paid in 2012.

The following table shows the amount of STIs paid to senior executives in 2012 based on 2011 performance criteria. The percentages forfeited are a result of both Company performance objectives and personal performance objectives not being met in 2011. No amounts of STI vest in future years.

	Included in Remuneration US\$	% of Maximum STI Paid in the Year	% of Maximum STI Forfeited in the Year
Mr A S Linn	181,283	53	47
Mr R Morris	113,949	65	35
Mr R B Stork	41,436	60	40
Mr A Neilson	134,667	81	19
Ms L Nolan	124,308	71	29

## LTI Outcomes for Senior Executives in 2012

No LTIs were awarded to senior executives in 2012 other than to Dr P Eliet who was granted 500,000 performance rights in September 2012 on commencement of employment.

No terms of any options or rights granted to senior executives have been modified during 2012.

The table below details the options and rights over ordinary shares in the Company that were granted as remuneration to each senior executive up to 31 December 2012 as well as details on options and rights that vested during 2012 and any historical share options vested or lapsed.

	Grant Date	Fair Value A\$	Exercise price A\$	Rights/ Options on 1 Jan 2012	Issued	Exercised	Lapsed	Rights/ Options on 31 Dec 2012	Vested	Exercis- able <sup>(1)</sup>	Date Rights/ Options First Vesting
Mr A Linn	19/05/2008	1.14	2.28	400,000	-	-	-	400,000	400,000	200,000	19/05/2010
	23/12/2008	0.22	0.73	150,000	-	-	-	150,000	150,000	75,000	23/12/2010
	29/03/2010	0.24	-	120,000	-	(48,000)	(72,000)	-	-	-	29/03/2012
	12/11/2010	0.32	-	1,250,000	-	-	-	1,250,000	-	-	12/11/2013
	7/03/2011	0.29	-	1,500,000	-	-	-	1,500,000	-	-	7/03/2014
	16/12/2011	0.20	-	500,000	-	-	-	500,000	-	-	16/12/2014
				<b>3,920,000</b>	-	<b>(48,000)</b>	<b>(72,000)</b>	<b>3,800,000</b>	<b>550,000</b>	<b>275,000</b>	
Mr R Morris	23/12/2008	0.23	0.54	200,000	-	-	-	200,000	200,000	200,000	23/12/2010
	29/03/2010	0.24	-	140,000	-	(56,000)	(84,000)	-	-	-	29/03/2012
	12/11/2010	0.32	-	500,000	-	-	-	500,000	-	-	12/11/2013
	16/12/2011	0.20	-	400,000	-	-	-	400,000	-	-	16/12/2014
				<b>1,240,000</b>	-	<b>(56,000)</b>	<b>(84,000)</b>	<b>1,100,000</b>	<b>200,000</b>	<b>200,000</b>	
Mr R Stork	16/12/2011	0.20	-	600,000	-	-	-	600,000	-	-	16/12/2014
Mr A Neilson	10/05/2007	1.34	3.43	200,000	-	-	-	200,000	200,000	100,000	10/05/2009
	19/05/2008	1.14	2.28	20,000	-	-	-	20,000	20,000	10,000	19/05/2010
	23/12/2008	0.22	0.73	150,000	-	-	-	150,000	150,000	75,000	23/12/2010
	29/03/2010	0.24	-	120,000	-	(48,000)	(72,000)	-	-	-	29/03/2012
	12/11/2010	0.32	-	400,000	-	-	-	400,000	-	-	12/11/2013
	16/12/2011	0.20	-	650,000	-	-	-	650,000	-	-	16/12/2014
				<b>1,540,000</b>	-	<b>(48,000)</b>	<b>(72,000)</b>	<b>1,420,000</b>	<b>370,000</b>	<b>185,000</b>	
Ms L Nolan	7/03/2006	1.15	2.85	30,000	-	-	(30,000)	-	-	-	7/03/2008
	31/12/2006	0.98	3.59	70,000	-	-	(70,000)	-	-	-	31/12/2008
	19/05/2008	1.14	2.28	20,000	-	-	-	20,000	20,000	20,000	19/05/2010
	23/12/2008	0.23	0.54	60,000	-	-	-	60,000	60,000	60,000	23/12/2010
	29/03/2010	0.24	-	70,000	-	(28,000)	(42,000)	-	-	-	29/03/2012
	12/11/2010	0.32	-	400,000	-	-	-	400,000	-	-	12/11/2013
	16/12/2011	0.20	-	650,000	-	-	-	650,000	-	-	16/12/2014
				<b>1,300,000</b>	-	<b>(28,000)</b>	<b>(142,000)</b>	<b>1,130,000</b>	<b>80,000</b>	<b>80,000</b>	
Dr P Eliet	13/09/2012	0.30	-	-	<b>500,000</b>	-	-	<b>500,000</b>	-	-	13/09/2015

Note:

- (1) These exercisable options relate to price options which have vested. The existing performance options granted in prior years, which have vested at December 2012, are not currently capable of exercise as the Group absolute TSR relative to the performance of the ASX 200 Energy Index from the respective grant date has not been achieved.

# REMUNERATION REPORT

Continued

## 7. Company Performance and Remuneration Outcomes for Senior Executives in 2012 (continued)

### LTI Outcomes for Senior Executives in 2012 (continued)

Details of the total value of the rights/options granted and/or exercised to senior executives in 2012 as part of remuneration are set out in the table below. No value was attributable to options that lapsed during the year.

	Value of Rights Granted in 2012 A\$	Value of Rights Exercised in 2012 A\$	Remuneration consisting of Rights/Options Expensed for the year %
Mr A S Linn	–	19,680	20.0
Mr R Morris	–	22,960	4.1
Mr R B Stork	–	–	5.3
Mr A Neilson	–	19,680	11.3
Ms L Nolan	–	11,480	8.9
Dr P Eliet	150,000	–	6.1

The following table shows the shares issued on exercise of rights for the year ended 31 December 2012:

	No. of Shares Issued	Paid per Share A\$	Unpaid per Share A\$
Mr A S Linn	48,000	–	–
Mr R Morris	56,000	–	–
Mr A Neilson	48,000	–	–
Ms L Nolan	28,000	–	–

## 8. Statutory Details of Senior Executive Remuneration in 2012

The consolidated entity's reporting currency is USD and the amounts shown in this report are in USD unless otherwise stated. A majority of senior executives are paid in Australian dollars. As a result, the USD amounts shown are affected by foreign currency movements between years. The exchange rate used is the average for the period. The AUD/USD average rate used for 2012 was 1.0359 (2011:1.0318).

The table below outlines the remuneration of senior executives for year ended 31 December 2012 and 2011:

		Short Term		Post	Equity	Total	Percentage Performance Related	
		Salary	Cash Bonus <sup>(6)</sup>	Employment	Compensation			
		US\$	US\$	Super-annuation	Value of Share Rights/Options	US\$	%	
<b>Executive Directors</b>								
Mr A S Linn <sup>(1)</sup>	2012	766,971	181,283	364,430	–	328,841	1,641,525	31.1
	2011	798,172	144,865	416,163	46,130	356,271	1,761,601	28.4
<b>Senior Executives</b>								
Mr R Morris <sup>(2)</sup>	2012	1,154,967	113,949	254,101	–	65,827	1,588,844	11.3
	2011	780,420	254,625	210,966	–	73,483	1,319,494	24.9
Mr R B Stork <sup>(3)</sup>	2012	497,232	41,436	153,844	44,751	40,984	778,247	10.6
	2011	414,702	–	77,475	14,858	1,789	508,824	0.4
Mr A Neilson	2012	442,417	134,667	14,928	25,897	78,479	696,388	30.6
	2011	392,085	98,063	14,388	24,368	80,487	609,391	29.3
Ms L Nolan <sup>(4)</sup>	2012	496,353	124,308	185,624	23,862	81,090	911,237	22.5
	2011	407,962	71,318	63,575	26,437	57,760	627,052	20.6
Dr P Eliet <sup>(5)</sup>	2012	221,369	–	20,012	–	15,609	256,990	6.1
	2011	–	–	–	–	–	–	–
<b>Total</b>	<b>2012</b>	<b>3,579,309</b>	<b>595,643</b>	<b>992,939</b>	<b>94,510</b>	<b>610,830</b>	<b>5,873,231</b>	<b>20.5</b>
	2011	2,793,341	568,871	782,567	111,793	569,790	4,826,362	23.6

Note:

- (1) Included in Mr Linn's 2011 remuneration are costs associated with secondment to Malaysia from 1 September 2011. Mr Linn was not an Executive Director during 2011.
- (2) Mr Morris works predominantly for the Zhao Dong and Beibu joint ventures and a large percentage of his remuneration costs are recovered from the respective joint venture partners. The amount disclosed is 100% of his remuneration.
- (3) From 1 September 2011, 80% of Mr Stork's remuneration costs are charged directly to BC Petroleum Sdn Bhd. The amount disclosed is 100% of his remuneration.
- (4) Included in Ms Nolan's salary is an amount of \$36,736 in 2012 as relocation allowance when she commenced her secondment in Malaysia. In 2011, a component of Ms Nolan's non-monetary benefits comprised initial relocation costs associated with the secondment to Malaysia.
- (5) Dr Eliet commenced employment with ROC on 13 September 2012. Most of Dr Eliet's secondment costs are paid as salary not as non-monetary benefits. Included in Dr Eliet's salary is an amount of \$35,000 paid to Dr Eliet as a relocation allowance when he commenced his secondment to Malaysia.
- (6) Cash Bonus is the amount paid in 2012 in respect of the 2011 performance year.

# REMUNERATION REPORT

Continued

## 9. Summary of Senior Executive Contractual Arrangements

The Company has employment contracts with all executive senior executives ('Service Agreements').

A number of senior executives have entered into Secondment Agreements in relation to secondments in Malaysia and China. The Secondment Agreements provide that the Company is responsible for certain specified costs associated with the relocation and secondment ('Secondment Agreement Costs') including:

- relocation costs;
- assignment allowances;
- housing and utilities costs;
- expatriate family medical insurance;
- cost of schooling for dependent children until completion of high school;
- agreed flights;
- local car and transport costs; and
- applicable taxes.

Unless otherwise stated, the Service Agreements do not provide for a fixed expiry date. Where Secondment Agreements are in place the Secondment Agreement provides that the Company may terminate the secondment, leaving just the Service Agreement in place, by giving 30 days' written notice at any time. The Secondment Agreement will also terminate in the event of termination of the Service Agreement.

Some Service Agreements include a provision that if employment of the senior executive terminates other than for cause within 12 months of a material diminution or the senior executive resigns within three months of a material diminution, the Company will pay the senior executive 12 months' base salary and statutory entitlements (inclusive of any payment in lieu of notice). Material diminution means a substantial diminution of the senior executive's job content, status, responsibilities and/or authority arising by either the Company being removed from the ASX or the Board directing (without the senior executive's approval) a substantial proportion of staff and consultants who report to them to no longer do so ('Material Diminution Termination Payment').

Other than in cases where termination occurs as a result of, injury, permanent disability, retirement or redundancy and, at the discretion of the Board, any unvested LTI performance awards are forfeited.

### **Alan Linn**

Mr Linn was appointed as Chief Executive Officer on 23 February 2011 and as Executive Director on 27 February 2012. Mr Linn's Service Agreement provides for a minimum term of three years. Mr Linn's Secondment Agreement is for a period of up to three years with effect from 31 August 2011 ('Existing Service Agreement'). Mr Linn has a Material Diminution Termination Payment provision in his Existing Service Agreement. Mr Linn's Existing Service Agreement is currently being renegotiated by the Remuneration Committee.

Under Mr Linn's Existing Service Agreement, annual fixed remuneration of US\$766,971 is payable comprising a base salary and superannuation. The total fixed remuneration is reviewable annually but without obligation to increase the amount. In addition to fixed remuneration, Mr Linn is entitled to participation in the Company STI and LTI plans. Under the Existing Service Agreement, the STI payable to Mr Linn is up to a maximum 57% of fixed remuneration comprised of up to 42% of the maximum STI based on the Board's assessment of the Company's performance and Mr Linn's performance, and up to 15% of the maximum STI based on the Board's assessment of Mr Linn's performance against specific key performance indicators agreed between the Chairman and Mr Linn at the commencement of 2012. No arrangements exist under the Existing Service Agreement for any specific annual entitlement to an award of LTIs. Mr Linn is entitled to Secondment Agreement Costs as non-monetary benefits under the Existing Service Agreement.

As an Executive Director, any equity to be issued or LTIs granted to Mr Linn in the future will be subject to shareholder approval.

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### **Ron Morris**

Mr Morris's appointment as President, Roc Oil (China) Company commenced on 1 August 2009. Other than provision for six months' salary in lieu of notice, there is no entitlement to any payment on termination.

Mr Morris's current annual fixed remuneration of US\$1,154,967 comprises base salary, taxes, superannuation and specified Secondment Agreement Costs payable as cash. The base salary is reviewable annually without obligation to increase the amount. In addition, Mr Morris is entitled to participation in the Company STI and LTI. In recognition of Mr Morris's position managing the Company's China operations, Mr Morris is also entitled to Secondment Agreement Costs as non-monetary benefits.

### **Rolf Stork**

Mr Stork's appointment as Chief Operating Officer commenced on 1 September 2011. Mr Stork's Service Agreement contemplated a secondment to Malaysia to comprise 80% of Mr Stork's employment, with the remaining 20% based in Sydney. The secondment arrangement to Malaysia is for a period up to three years. Mr Stork has a Material Diminution Termination Payment provision in his Service Agreement.

Mr Stork's current annual fixed remuneration of US\$497,232 comprises base salary, superannuation and some Secondment Agreement Costs payable as cash. The base salary is reviewable annually without obligation to increase the amount. In addition, Mr Stork is entitled to participation in the Company STI and LTI. Mr Stork is also entitled to Secondment Agreement Costs as non-monetary benefits.

Eighty percent of Mr Stork's costs are charged directly to BC Petroleum Sdn Bhd (an associate company of ROC) as a result of a back-to-back secondment arrangement.

### **Anthony Neilson**

Mr Neilson's appointment as Chief Financial Officer commenced on 30 April 2007. No termination payments are applicable to Mr Neilson's Service Contract; however, a "Change of Control" Agreement entered in 2010 provides for the payment of 12 months' base salary in the event of a diminution of duties resulting from a change of control in the Company as outlined in that agreement.

Mr Neilson's current annual fixed remuneration is US\$442,417 comprising base salary plus superannuation. The base salary is reviewable annually without obligation to increase the amount. In addition, Mr Neilson is entitled to participation in the Company STI and LTI.

### **Leanne Nolan**

Ms Nolan's appointment as General Counsel commenced on 12 November 2010. The Secondment Agreement recently entered is for a period of up to two years with effect from 1 January 2012. Ms Nolan has a Material Diminution Termination Payment provision in her Service Agreement.

Ms Nolan's current annual fixed remuneration of US\$496,353 comprises base salary, superannuation and some Secondment Agreement Costs payable as cash. The base salary is reviewable annually without obligation to increase the amount. In addition, Ms Nolan is entitled to participation in the Company STI and LTI. Ms Nolan is also entitled to Secondment Agreement Costs as non-monetary benefits.

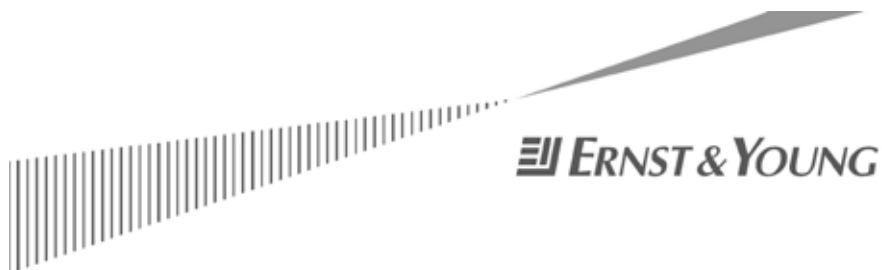
### **Pierre Eliet**

Dr Eliet's appointment as General Manager Exploration, Geoscience & Business Development commenced on 13 September 2012. Dr Eliet's Service Agreement contemplates a secondment arrangement to Malaysia for a period up to two years or such further period as is agreed. Other than provision for three months' salary in lieu of notice and, in the event of redundancy, a redundancy payment calculated in accordance with the minimum requirements of the *Fair Work Act 2009 (Cth)*, there is no entitlement to any payment on termination of employment.

Dr Eliet's current annual fixed remuneration is US\$628,908 comprising a base salary, taxes, superannuation and most Secondment Agreement Costs payable as cash. The base salary component of the fixed remuneration is reviewable annually without obligation to increase the amount. In addition, Dr Eliet is entitled to participate in the Company STI and LTI. During the term of secondment arrangement in Malaysia Dr Eliet is entitled to standard expatriate executive benefits, car and driver and expatriate medical insurance as non-monetary benefits. All other Secondment Agreement Costs are included in fixed remuneration.



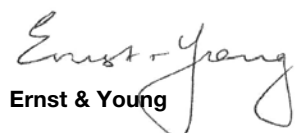
# AUDITOR'S INDEPENDENCE DECLARATION

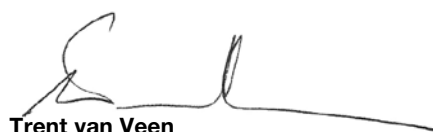


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## AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF ROC OIL COMPANY LIMITED

In relation to our review of the financial report of Roc Oil Company Limited for the financial year ended 31 December 2012, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

  
**Ernst & Young**

  
**Trent van Veen**  
Partner

Sydney, 27 February 2012

# DISCUSSION AND ANALYSIS OF FINANCIAL STATEMENTS

This discussion and analysis is provided to assist readers in understanding the financial statements for the financial year ended 31 December 2012.

## FINANCIAL PERFORMANCE

### Consolidated Statement of Comprehensive Income

The Group reported a net profit after income tax of US\$61.0 million (2011: net profit US\$27.7 million). The Group's trading profit was US\$106.2 million (2011: US\$108.0 million).

Included in the overall result were items relating to:

- profit on sale of Mauritanian assets of US\$10.3 million;
- foreign currency translation reserve gain of US\$4.6 million as a result of liquidation of a dormant company;
- a prior year overprovision in income tax of US\$15.7 million; offset by
- an increase in the restoration provision for BMG of \$3.4 million; and
- exploration expense of US\$18.1 million.

Basic earnings per share for the year were 8.9 cents based on a weighted average number of fully paid ordinary shares on issue of 682,992,485 shares.

### Sales and Production Growth

The Group recorded solid performance from its producing assets, with working interest production of 2.4 MMBOE (2011: 2.7 MMBOE), down 14% compared to the prior year. Of the total working interest production, 0.2 MMBBL (9.6%) was delivered to host governments in relation to respective governments' share of profit oil under the Group's Production Sharing Contracts. ROC's closing balance 2P reserves at 31 December 2012 was 15.0 MMBOE, including reserve additions of 2.4 MMBBL after allowing for 2012 production, representing a 100% reserve replacement for 2012.

Oil and gas sales revenue of US\$242.1 million (2011: US\$285.8 million) was generated from sales volumes of 2.1 MMBOE (2011: 2.6 MMBOE), which achieved an average realised oil price of US\$113.60/BBL (2011: US\$110.93/BBL) before hedging, a premium of 1.5% to the Brent oil price which averaged US\$111.67/BBL for 2012.

Operating costs of US\$135.9 million (2011: US\$177.9 million) comprised production costs of US\$35.7 million (US\$15.14/BOE), amortisation costs of US\$70.9 million (US\$30.04/BOE), Chinese special oil income levy and royalty of US\$31.9 million offset by stock movements of US\$2.5 million.

### Exploration Expensed

Exploration and evaluation expenditure of US\$29.0 million (2011: US\$15.9 million) was incurred during the period, attributable to drilling exploration and appraisal wells in China and new venture activities. In accordance with the Company's successful efforts accounting policy, US\$18.1 million (2011: US\$13.5 million) in exploration costs were expensed during the period, mainly relating to the impairment of the H-2 well in Zhao Dong and new venture costs.

### Income Tax

An income tax expense of US\$21.8 million (2011: US\$52.9 million) was incurred during the period, which included: an income tax expense of US\$33.5 million and current PRRT of US\$17.3 million offset by a prior year overprovision of US\$15.7 million and a deferred income tax credit of US\$13.3 million relating to timing differences.

The total tax paid during the year was US\$47.0 million (2011: \$54.0 million), relating to Zhao Dong, UK assets and PRRT in Australia.

### Hedging

At 31 December 2012, ROC held no Brent oil price swap contracts. During the period, 0.150 MMBBL of oil price derivatives were settled, resulting in a cash outflow of US\$0.7 million.

# DISCUSSION AND ANALYSIS OF FINANCIAL STATEMENTS

Continued

## FINANCIAL PERFORMANCE (continued)

### Consolidated Statement of Financial Position

During the period, total assets increased to US\$368.8 million (2011: US\$352.9 million) and total liabilities decreased to US\$150.2 million (2011: US\$191.3 million). As a result, net assets increased to US\$218.6 million (2011: US\$161.6 million).

Oil and gas assets increased to US\$237.3 million (2011: US\$218.3 million) during the period, mainly as a result of \$65.3 million development expenditure incurred, a transfer of successful exploration to assets under development of US\$11.0 million and an increase in the restoration costs of US\$14.6 million offset by amortisation of US\$70.9 million.

At 31 December 2012, ROC's net cash position was US\$56.8 million (2011: US\$26.5 million), consisting of cash assets held of US\$56.8 million (2011: US\$39.6 million) with no debt drawn (2011: US\$13.1 million). At year end, the loan facility available to ROC was US\$91.0 million relating to the remaining portion of the loan facility with Commonwealth Bank of Australia, BNP Paribas (Sydney Branch) and Sumitomo Mitsui Banking Corporation, maturing in June 2015.

### Consolidated Statement of Cash Flows

Net cash generated from operating activities was US\$126.3 million (2011: US\$43.4 million). The funds were primarily used for development expenditure of US\$59.4 million (2011: US\$35.4 million) and exploration and evaluation expenditure initially capitalised of US\$19.4 million (2011: US\$5.7 million). Proceeds received from sale of exploration and development assets were US\$1.8 million.

## CORPORATE ACTIVITY

### Health, Safety and Environment (HSE)

ROC is disappointed to report its first recorded Lost Time Injury across the business for two years. The low potential incident occurred at the Cliff Head facility which had been operating LTI free for six years. ROC has a track record of performing ahead of industry averages measuring safety and environmental performance and we recognise that this must remain a key focus across our business. We will continue to pursue the highest standards and continue working towards an incident free workplace. Operations in China and at our BMG asset achieved two years without a lost time injury in December 2012.

During the year we updated our HSE Management System and made further good progress in implementing our Asset Integrity Management System at Cliff Head and Zhao Dong. ROC also reviewed and updated its incident management plans for all its operations.

### Senior Management Appointments

Dr Pierre Eliet joined ROC in September 2012 as General Manager – Exploration, Geoscience & Business Development and will be based in Kuala Lumpur, Malaysia.

## OPERATIONAL OVERVIEW

### Production and Development

The Group incurred US\$35.7 million in production costs (2011: US\$46.9 million), US\$65.3 million (2011: US\$30.8 million) in development expenditure and \$15.4 million incurred on BMG NPP during 2012. Development costs primarily related to the development of Beibu and the ongoing development drilling at the Zhao Dong Fields.

### Zhao Dong Oil Fields, Bohai Bay, Offshore China

ROC's working interest in oil production from the C and D Fields (24.5% and operator), the C4 unitised field (11.575% and operator) and Zhanghai Block (39.2% and operator) averaged 4,352 BOPD, down 6% compared to the previous year as a result of natural field decline and planned shutdown activity.

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Development expenditure of US\$26.7 million (2011: US\$27.4 million) was incurred. A total of 14 producer wells and three injector wells were drilled during 2012.

Successful development drilling has resulted in 1.3 MMBBL additional 2P reserves being added to the Zhao Dong Field.

During the period, a second appraisal well (H-2) in the Zhanghai Block was drilled to the expected total depth and a liner run to secure the well before suspending operations because of severe weather conditions. The well came in below pre-drill expectation and as a result US\$10.3 million of the costs incurred to 31 December 2012 were expensed. Further testing will occur in 1Q2013.

#### **Cliff Head Oil Field, WA-31-L, Offshore Western Australia (42.5% and Operator)**

ROC's working interest in oil production from the Cliff Head field averaged 1,306 BOPD, up 15% compared to the previous year as a contamination incident in 2011 interrupted production in the previous year.

#### **Blane Oil Field, North Sea (12.5%)**

ROC's working interest in oil production from the Blane field averaged 668 BOEPD, down 47% compared to the previous year.

The decrease in production was attributable to several planned and unplanned shutdowns during the year. The shutdowns included a planned maintenance shutdown in March, and a major upgrade to the Ula host platform safety systems with gas lift unavailable during this period. Further to this, production from the Blane Field was shut in from early September to late November due to a safety incident on the host Ula platform which was unrelated to the Blane Field. The field is now fully operational.

#### **Enoch Oil and Gas Field, North Sea (12%)**

ROC's working interest in gross production averaged 25 BOEPD, down 91% compared to the previous year primarily due to the Enoch Field being shut in for the majority of the year (since late January) due to mechanical and subsea issues, and the field is expected to remain shut in for the remainder of 2013.

#### **WZ 6-12 and WZ 12-8 West Oil Field Development, Beibu Gulf, Offshore China (19.6%)**

The Beibu Gulf development project continued on schedule and within budget as activities ramped up during the year. Final government approval was granted by the National Development and Reform Commission ('NDRC') in 3Q2012 and the facilities were nearing completion at year end. This included installation of the pipeline, fabrication and installation of two well head platforms and the installation of the PUQB. Final hook-up and commissioning work commenced in December. The development drilling programme is underway and first oil targeted during 1Q2013. The project expects plateau production later in 2013.

The successful completion of the exploration/appraisal campaign in the Beibu Gulf (offshore China) resulted in three discoveries and delivered incremental reserves to ROC of 0.7 MMBBL.

#### **BMG Oil and Gas Fields, VIC/L26, VIC/L27 and VIC/L28, Offshore Victoria (37.5% and Operator)**

BMG completed Non-Production Phase ('NPP') activities during the year, including the offshore deconstruct engineering and well intervention, the removal of the Crystal Ocean's detachable turret mooring from the field and the trenching of a subsea flowline in the field. These activities were successfully undertaken without experiencing a Lost Time Injury or significant loss of containment incident. The evaluation of options for a separate Phase-2 gas development continues.

ROC expects to hold a 37.5% interest in BMG, following the withdrawal of CIECO Exploration and Production (Australia) Pty Ltd from the BMG Joint Venture in December 2012, subject to regulatory approval. ROC's share of cash paid for NPP activities during year was US\$12.1 million.

# DISCUSSION AND ANALYSIS OF FINANCIAL STATEMENTS

Continued

## OPERATIONAL OVERVIEW (continued)

### Exploration and Appraisal

The Group incurred US\$29.0 million (2011: US\$15.9 million) in exploration and evaluation expenditure during 2012.

#### Balai Cluster Risk Service Contract, Offshore Sarawak, Malaysia (48%)

The Balai Cluster comprises a cluster of four marginal fields: Balai, Bentara, Spaoh and West Acis, which are located offshore Sarawak in water depths of approximately 60 metres. An incorporated joint venture company, BC Petroleum Sdn Bhd ('BCP') was incorporated to manage the Risk Service Contract ('RSC'). The shareholders in BCP are ROC 48%, DIALOG Group 32% and PETRONAS Carigali 20%. ROC accounts for its investment in BCP under the equity method of accounting.

The pre-development activities in 2012 included the conversion of the Early Production Vessel, onshore fabrication and offshore installation of four well head platforms, and the commencement of appraisal drilling activities in September, with the presence of hydrocarbons confirmed at both the Bentara-2 and Balai-2 wells. In May, BCP also secured project financing (debt facility for US\$162 million) for the pre-development phase of the RSC.

On successful completion of the pre-development phase and agreement on the economic viability of the fields, BCP will submit a field development plan and progress to development of the fields or will be compensated with reimbursement of agreed costs.

During 2012, ROC directly contributed funds of US\$17.4 million to BCP for pre-development phase activities relating to the Balai Cluster RSC.

#### Block H, Offshore Equatorial Guinea (20%)

Following ROC's farm-out agreement in 2011, ROC has a free carry through one exploration well. The joint venture partners have received an extension to the permit to February 2014. A detailed technical review is being carried out to develop further prospects in Block H with the drilling of an exploration well not expected to start prior to 4Q2013. An option is also in place for White Rose Energy Ventures (Equatorial Guinea) Limited to acquire ROC's remaining 20% interest in Block H for US\$16.1 million prior to the spud of any exploration well.

#### Block 09/05, Bohai Bay (100% and Operator)

Consistent with ROC's growth strategy to boost long term reserves, ROC was awarded a prospective 335 km<sup>2</sup> exploration Block 09/05 with CNOOC for a 100% operated interest in Bohai Bay in May. The block is close to the existing ROC operated Zhao Dong infrastructure.

ROC views the Block as having good potential. Geotechnical work is in progress with planned 3D seismic testing and two exploration wells targeted over the next three years. A farm-out process continues.

### Divestments and Withdrawals

During 2012, ROC divested or withdrew from the following assets:

#### Offshore Mauritania

ROC had interests of between 2.00% and 5.49% in offshore Mauritanian blocks, including a 3.25% interest in the producing Chinguetti Oil Field. The effective date of the sale was 1 January 2011. The transaction was completed during 2012 after all necessary approvals were obtained. ROC received total net cash proceeds of \$1.8 million and booked an after-tax net profit of \$10.3 million.

#### Juan de Nova Maritime Profond Block, Offshore French Territory, Mozambique Channel

ROC has agreed to sell its 75% interest in the Juan de Nova Maritime Profond Block, located in the French Exclusive Economic zone off the coast of Juan de Nova Island (Mozambique Channel), to South Atlantic Petroleum JDN SAS, a wholly-owned subsidiary of South Atlantic Petroleum Limited, for US\$8.0 million subject to working capital adjustments. The effective date of the sale is 1 July 2011. The agreement is subject to necessary government approvals. At 31 December 2012, these approvals were still outstanding and completion of the sale is anticipated to take place during 1Q2013.

#### PEP52181, Offshore Taranaki, New Zealand (50% and Operator)

ROC issued a withdrawal notice and resigned as operator effective 18 May 2012. Formal government approval was granted on 15 June 2012.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 31 December 2012

	<i>Note</i>	<b>2012 US\$'000</b>	<b>2011 US\$'000</b>
<b>Sales revenue</b>	4	<b>242,067</b>	<b>285,831</b>
Operating costs	5	(135,917)	(177,864)
<b>Trading profit</b>		<b>106,150</b>	<b>107,967</b>
Other income	6	3,967	193
Gain on sale of exploration and development assets		10,315	40
Net derivative losses		(878)	(13,140)
Exploration expensed	7	(18,081)	(13,548)
Reversal of prior period impairment of oil and gas assets	16	–	18,633
Provision for restoration		(3,379)	–
Foreign currency translation reserve gain on liquidation of subsidiary		4,649	–
Impairment of exploration asset		–	(484)
Other costs	8	(13,413)	(12,987)
Finance costs	9	(6,595)	(6,003)
<b>Profit before income tax</b>		<b>82,735</b>	<b>80,671</b>
Income tax expense	10	(21,781)	(52,924)
<b>Net profit</b>		<b>60,954</b>	<b>27,747</b>
<b>Other comprehensive income</b>			
Foreign currency translation reserve gain on liquidation of subsidiary		(4,649)	–
Cash flow hedges transferred to trading profit		–	946
<b>Other comprehensive (loss)/income net of tax</b>		<b>(4,649)</b>	<b>946</b>
<b>Total comprehensive profit attributable to members</b>		<b>56,305</b>	<b>28,693</b>
Basic earnings per share – cents	25	8.9	3.9
Diluted earnings per share – cents	25	8.8	3.9

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	<i>Note</i>	2012 US\$'000	2011 US\$'000
<b>Current assets</b>			
Cash assets	11	56,783	39,624
Trade and other receivables	12	25,474	67,335
Inventories	15	658	2,305
Derivatives	14	-	1,318
<b>Total current assets</b>		<b>82,915</b>	<b>110,582</b>
<b>Non-current assets</b>			
Oil and gas assets	16	237,292	218,342
Exploration and evaluation expenditure	17	1,094	1,169
Property, plant and equipment	18	1,080	1,678
Deferred tax assets	10	13,021	5,115
Investments in associate companies	30	33,422	15,999
<b>Total non-current assets</b>		<b>285,909</b>	<b>242,303</b>
<b>Total assets</b>		<b>368,824</b>	<b>352,885</b>
<b>Current liabilities</b>			
Trade and other payables	21	36,088	48,136
Current tax liabilities	10	9,944	21,195
Provisions	22	10,868	13,091
<b>Total current liabilities</b>		<b>56,900</b>	<b>82,422</b>
<b>Non-current liabilities</b>			
Bank loan	19	-	13,082
Deferred tax liabilities	10	26,406	31,777
Provisions	22	66,869	63,995
<b>Total non-current liabilities</b>		<b>93,275</b>	<b>108,854</b>
<b>Total liabilities</b>		<b>150,175</b>	<b>191,276</b>
<b>Net assets</b>		<b>218,649</b>	<b>161,609</b>
<b>Equity</b>			
Share capital	23	734,150	734,150
Accumulated losses		(534,022)	(594,976)
Other reserves		18,521	22,435
<b>Total equity</b>		<b>218,649</b>	<b>161,609</b>

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year ended 31 December 2012

	<i>Note</i>	Inflow/(Outflow) 2012 US\$'000	Inflow/(Outflow) 2011 US\$'000
<b>Cash flows from operating activities</b>			
Cash generated from operations	11	190,336	176,166
Derivatives paid		(676)	(42,792)
Payments for exploration and evaluation expenses		(5,449)	(11,249)
Interest received		3,965	151
Finance costs paid		(2,866)	(3,473)
Payments for non-production phase for BMG		(12,099)	(21,451)
Income taxes and PRRT paid		(46,950)	(53,958)
<b>Net cash generated from operating activities</b>		<b>126,261</b>	<b>43,394</b>
<b>Cash flows from investing activities</b>			
Payments for plant and equipment		(104)	(498)
Payments for development expenditure		(59,401)	(35,379)
Payments for exploration and evaluation expenditure initially capitalised		(19,404)	(5,711)
Proceeds from sale of exploration and development assets		1,779	20,518
Adjustment/(payment) for acquisition of additional 5% interest in Cliff Head		551	(2,664)
Investment in associate	30	(17,423)	(15,999)
<b>Net cash used in investing activities</b>		<b>(94,002)</b>	<b>(39,733)</b>
<b>Cash flows from financing activities</b>			
Share buy-back payments	23	–	(10,051)
Bank loan repayments		(15,000)	(50,000)
Bank loan advances		–	15,000
<b>Net cash used in financing activities</b>		<b>(15,000)</b>	<b>(45,051)</b>
<b>Net increase/(decrease) in cash held</b>		<b>17,259</b>	<b>(41,390)</b>
Cash at beginning of financial year		39,624	80,960
Effect of exchange rate changes on the balance of cash held in foreign currencies		(100)	54
<b>Cash at end of financial year</b>	11	<b>56,783</b>	<b>39,624</b>



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year ended 31 December 2012

	Share Capital US\$'000	Accumulated Losses US\$'000	Share Equity Reserve US\$'000	Foreign Currency Translation Reserve US\$'000	Hedge Reserve US\$'000	Total US\$'000
<b>Balance at 1 January 2011</b>	<b>744,201</b>	<b>(622,723)</b>	<b>10,760</b>	<b>10,710</b>	<b>(946)</b>	<b>142,002</b>
Cancellation of shares	(10,051)	–	–	–	–	(10,051)
Total comprehensive profit net of tax	–	27,747	–	–	946	28,693
Transactions with owners: share-based payments	–	–	965	–	–	965
<b>Balance at 31 December 2011</b>	<b>734,150</b>	<b>(594,976)</b>	<b>11,725</b>	<b>10,710</b>	<b>–</b>	<b>161,609</b>
Total comprehensive profit net of tax	–	60,954	–	(4,649)	–	56,305
Transactions with owners: share-based payments	–	–	735	–	–	735
<b>Balance at 31 December 2012</b>	<b>734,150</b>	<b>(534,022)</b>	<b>12,460</b>	<b>6,061</b>	<b>–</b>	<b>218,649</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## Note 1. Summary of Significant Accounting Policies

### (a) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, applicable Accounting Standards and interpretations and other mandatory professional reporting requirements. The financial report has been prepared on the historical cost basis except for certain financial instruments which have been measured at fair value.

The financial report is presented in USD. All values are rounded to the nearest thousand dollars (US\$'000) unless otherwise stated under the option available to the Company under the ASIC Class Order 98/100. The Company is an entity to which the Class Order applies.

The financial statements were authorised for issue on 27 February 2013 by the Board.

### (b) Statement of compliance

The financial report complies with Australian Accounting Standards. The financial report, comprising the consolidated financial statements and notes thereto, also complies with International Financial Reporting Standards.

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective, have not been adopted by the Group for the reporting period ended 31 December 2012 and are not expected to have a material impact.

### (c) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group. The consolidated financial statements include the information and results of each controlled entity from the date on which the Company obtains control and until such time as the Company ceases to control such entity.

In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits and losses arising within the Group are eliminated in full.

### (d) Oil and gas assets

Development expenditure is stated at cost less accumulated depletion and any impairment in value. Where commercial production in an area of interest has commenced, the associated costs together with any forecast future capital expenditure necessary to develop proved and probable reserves are amortised over the estimated economic life of the field, on a unit-of-production basis. Costs are amortised only once production begins.

Changes in factors such as estimates of proved and probable reserves that affect unit-of-production calculations do not give rise to prior year financial period adjustments and are dealt with on a prospective basis.

### (e) Exploration and evaluation expenditure

Exploration and evaluation expenditure in respect of each area of interest is accounted for using the successful efforts method of accounting. An area of interest refers to an individual geological area which is considered to constitute a favourable environment for the presence of an oil or gas field, usually represented by an individual oil or gas field.

The successful efforts method requires all exploration and evaluation expenditure in relation to an area of interest to be expensed in the period it is incurred, except the costs of successful wells, the costs of acquiring interests in new exploration assets and pre-development costs where the rights to the tenure of the area of interest are current and the expenditure either:

- is expected to be recovered through sale or successful development and exploitation of the area of interest; or
- relates to an exploration discovery for which at balance date a reasonable assessment of the existence or otherwise of economically recoverable reserves is not yet complete, or additional appraisal work is underway or planned.

Pending assessment of the results of a well, the costs are initially capitalised then expensed or remain capitalised, depending on a review of the results in accordance with successful efforts accounting criteria.

When an oil or gas field has been approved for development, the accumulated exploration and evaluation costs are transferred to oil and gas assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued

## Note 1. Summary of Significant Accounting Policies (continued)

### (f) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Depreciation is provided on plant and equipment, including freehold buildings but excluding land. Plant and equipment is depreciated on a straight line basis so as to write down these assets to their estimated residual values over their estimated useful lives to the Group.

The following estimated useful lives are used in the calculation of depreciation in the current and prior year:

- plant and equipment 2 – 10 years;
- leasehold improvements 2 – 10 years; and
- motor vehicles under finance leases 2 – 5 years.

Leases of plant and equipment, under which the Group assumes substantially all the risks and benefits of ownership, are classified as finance leases. Finance leases are capitalised and depreciated over their estimated useful lives to the Group.

Operating leases are not capitalised. Payments made under operating leases are charged to the Consolidated Statement of Comprehensive Income in equal instalments over the term of the lease.

### (g) Oil and gas stock and materials inventories

Oil and gas stock is valued at the lower of cost and net realisable value. Cost comprises a relevant proportion of all fixed and variable production, overhead, decommissioning and amortisation costs. Net realisable value is determined on the basis of selling prices less expenses to be incurred in transport, pipeline tariffs, handling and royalties, to the point in time where the product passes to the purchaser.

Stocks of materials and spare parts are carried at the lower of cost and net realisable value, with cost primarily determined by the first-in-first-out method utilising an average cost basis.

### (h) Under/overlift

Lifting or offtake arrangements for oil produced in jointly-owned operations are such that it is not practicable for each participant to receive or sell its precise share of the overall production during the period. At each reporting date, the extent of underlift is recognised as an asset at the lower of cost and net realisable value. Overlift is recognised as a liability at the current market price of oil. The net movement in underlift and overlift is recognised in the Consolidated Statement of Comprehensive Income in operating costs.

### (i) Available-for-sale securities

Available-for-sale securities are those non-derivative financial assets, principally equity securities that are designated as available-for-sale. After initial recognition, available-for-sale securities are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in the Consolidated Statement of Comprehensive Income.

### (j) Investments

Investments in subsidiaries are carried at cost less any impairment in value.

### (k) Provision for restoration

Provision for restoration is recognised when there is a legal or constructive commitment to do so. A corresponding tangible fixed asset of an amount equivalent to the provision is also created. Where no restoration asset exists, the corresponding adjustment is recognised in the Consolidated Statement of Comprehensive Income. The amount recognised is the estimated cost of restoration, discounted to its net present value and is reassessed each year in accordance with local conditions and requirements. This asset is subsequently depleted on a unit-of-production basis. Changes in the estimates of commercial reserves or restoration cost estimates are dealt with prospectively by recording an adjustment to the provision and a corresponding adjustment to the restoration asset.

The unwinding of the effect of discounting on the restoration provision is included within finance costs.

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**(l) Cash and cash equivalents**

Cash is defined as cash at bank and on hand and money market investments readily convertible to cash.

**(m) Investments in associate companies**

The Group's investments in its associate companies are accounted for under the equity method of accounting in the consolidated financial statements. An associate company is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

The financial statements of the associate companies are used by the Group to apply the equity method. The reporting dates of the associate companies and the Group are identical and both use consistent accounting policies.

The investments in the associate companies are carried in the Consolidated Statement of Financial Position at cost plus post-acquisition changes in the Group's share of net assets of the associate companies, less any impairment in value. The Consolidated Statement of Comprehensive Income reflects the Group's share of the results of operations of the associate companies.

**(n) Trade receivables**

Trade receivables are recognised and carried at amortised cost less impairment.

**(o) Impairment**

At each reporting date, the Group assesses whether there is any indication that an asset, other than inventories and deferred tax assets, may be impaired. Where an indicator of impairment exists, the Group makes an estimate of recoverable amount. An impairment loss is recognised in the Consolidated Statement of Comprehensive Income whenever the carrying amount of the asset or cash-generating unit exceeds its recoverable amount.

***Calculation of recoverable amount***

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing the value in use, the estimated discounted future cash flows based on management's expectations are used.

Where conditions giving rise to impairment subsequently reverse, the effect of the impairment charge is also reversed as a credit to the Consolidated Statement of Comprehensive Income, net of any amortisation that would have been charged since the impairment.

**(p) Provisions**

Provisions are recognised when the Group has a present obligation, the future sacrifice of economic benefits is probable and the provision can be reliably measured. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date.

**(q) Revenue*****Sales***

Sales are recognised in the financial period during which hydrocarbons are produced, provided that prior to the reporting date they are either sold or delivered in the normal course of business in accordance with agreements with purchasers.

Sales revenue represents amounts invoiced, excluding GST or value added taxes, in respect of sales to purchasers.

Sales revenue is stated net of the impact of oil and gas price hedge contracts entered into by the Group to reduce future oil and gas price exposure.

***Interest***

Interest is recognised as the interest accrues to the net carrying amount of the financial asset.

***Dividends***

Revenue is recognised when the shareholders' right to receive the payment is established.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued

## Note 1. Summary of Significant Accounting Policies (continued)

### (r) Finance costs

Finance costs are recognised as an expense when incurred and are calculated using the effective interest rate method. This method amortises the transaction costs over the term of the borrowing.

### (s) Share-based payment transactions

Share-based compensation benefits are provided to employees via the Long Term Incentive Plan, the Employee Share Option Plan and the Executive Share Option Plan. Both share option plans have now been discontinued and no new issues under either of these plans will occur.

These equity-settled transactions with employees are measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the Monte Carlo simulation technique. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to market performance.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects: (i) the extent to which the vesting period has expired; and (ii) the number of awards that, in the opinion of the Directors, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

The dilutive effect, if any, of outstanding options and share rights is reflected as additional share dilution in the computation of earnings per share.

### (t) Income tax

#### *Current tax*

Current tax is calculated by reference to the amount of income taxes payable in respect of taxable profits. It is calculated by using tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Tax for the current and prior periods is recognised as a liability to the extent that it is unpaid.

#### *Deferred tax*

Deferred income tax is provided on all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. A deferred income tax liability is recognised for all taxable temporary differences except where:

- the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associate companies and interests in joint ventures, the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax assets and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance date.

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Income taxes relating to items recognised directly in equity are recognised in equity and not in the Consolidated Statement of Comprehensive Income.

Where deferred tax arises from the initial accounting for a business combination, it is taken into account in the determination of goodwill.

#### ***Tax consolidation***

The Company and all its wholly-owned Australian resident entities are part of a tax consolidated group under Australian taxation law. ROC is the head entity in the tax consolidated group.

Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax consolidated group are recognised in the separate financial statements of the members of the tax consolidated group using the 'stand-alone taxpayer' approach. Current tax liabilities and deferred tax assets arising from unused tax losses and tax credits of the members of the tax consolidated group are recognised by the Company (as head entity in the tax consolidated group).

Due to the existence of a tax funding arrangement between the entities in the tax consolidated group, amounts are recognised as payable to or receivable by the Company and each member of the group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax consolidated group in accordance with the arrangement.

#### ***Petroleum Resource Rent Tax***

Petroleum Resource Rent Tax (PRRT) is accounted for as income tax.

#### ***(u) Goods and services tax***

Revenue, expenses and assets are recognised net of amounts of GST, except where the amount of GST incurred is not recoverable from the taxation authority in which case the GST is recognised as part of the item of expenditure.

Cash flows are included in the Consolidated Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities which is recoverable or payable to the taxation authority is classified as operating cash flows.

#### ***(v) Derivative financial instruments***

Derivative contracts are entered into to limit the financial exposure of the entity in relation to commodity prices. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

#### ***Cash flow hedges***

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts deferred in equity are transferred to profit or loss in the periods when the hedged item is recognised in profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, no longer qualifies for hedge accounting or is redesignated to discontinue hedge accounting. At that time, any cumulative gain or loss recognised in equity is kept in equity until the forecast transaction occurs. If the forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in equity is transferred to profit or loss.

#### ***Derivatives that do not qualify for hedge accounting***

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued

## Note 1. Summary of Significant Accounting Policies (continued)

### (v) Derivative financial instruments (continued)

#### *Embedded derivatives*

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

### (w) Foreign currency translation

#### *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('functional currency'). The consolidated financial statements are presented in United States dollars, which is ROC's functional currency.

ROC has identified USD as its functional and presentation currency for the following reasons:

- a significant portion of ROC's activity is denominated in USD;
- a significant portion of ROC's assets and liabilities is denominated in USD; and
- USD is primarily the global currency used in the oil industry.

#### *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Consolidated Statement of Comprehensive Income.

#### *Group companies*

The results and financial position of Group companies that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each Statement of Financial Position are translated at the closing rate at the date of that Statement of Financial Position;
- income and expenses for each Statement of Comprehensive Income are translated at average exchange rates (unless this is not a reasonable approximation of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities are taken to equity. When a foreign operation is sold, a proportionate share of such exchange differences is recognised in the Consolidated Statement of Comprehensive Income, as part of the gain or loss on sale.

### (x) Employee benefits

Liability to employees for annual leave and long service leave is provided for when it is probable that settlement will be required and it is capable of being measured reliably. All employment related on-costs (including payroll tax and superannuation contributions) are included in the calculation of the required provision. Provisions for annual leave in respect of services provided by employees up to the reporting date expected to be settled within 12 months, are measured using remuneration levels expected to apply at the time of settlement.

Provisions for annual leave and long service leave which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to the reporting date.

### **(y) Interest in joint venture operations**

Interests in joint venture operations, where there is joint control, have been reported in the financial statements by including the Group's share of assets and liabilities of the joint venture and its share of any income and expenses incurred.

### **(z) Goodwill**

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the combination irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates.

When the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Impairment losses recognised for goodwill are not subsequently reversed.

## **Note 2. Significant Accounting Judgements, Estimates and Assumptions**

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on various other factors it believes to be reasonable under the circumstances, the results of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect the financial results or the financial position reported in future periods.

Further details of these assumptions and conditions may be found in the relevant notes to the financial statements.

### **(a) Significant accounting judgements**

#### ***Exploration and evaluation***

The Group's accounting policy for exploration and evaluation assets is set out at Note 1(e). The application of this policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular, the assessment of whether economic quantities of reserves have been found. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised expenditure under the policy, the Group concludes that it is unlikely to recover the expenditure by future exploitation or sale, then the relevant capitalised amount will be written off to the Consolidated Statement of Comprehensive Income.

### **(b) Significant accounting estimates and assumptions**

#### ***Impairment of assets***

In determining the recoverable amount of assets, in the absence of quoted market prices, estimations are made regarding the present value of future cash flows. For oil and gas properties, expected future cash flow estimation is based on reserves, future production profiles, commodity prices and costs.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued

## Note 2. Significant Accounting Judgements, Estimates and Assumptions (continued)

### (b) Significant accounting estimates and assumptions (continued)

#### *Restoration obligations*

The Group estimates the future removal costs of on and offshore oil and gas platforms, production facilities, wells and pipelines at the time of installation of the assets. In most instances, removal of assets occurs many years into the future. This requires judgemental assumptions regarding removal data, future environmental legislation, the extent of reclamation activities required, the engineering methodology for estimating costs, future removal technologies in determining the removal cost, and asset specific discount rates to determine the present value of these cash flows. For more details regarding the policy in respect of the provision for restoration, refer to Note 1(k).

#### *Reserve estimates*

Estimates of recoverable quantities of proved and probable reserves reported include judgemental assumptions regarding commodity prices, exchange rates, discount rates and production and transportation costs for future cash flows. It also requires interpretation of complex and difficult geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs, and their anticipated recoveries. The economic, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact asset carrying values, the provision for restoration and the recognition of deferred tax assets, due to changes in expected future cash flows. Reserves are integral to the amount of amortisation charged to the Consolidated Statement of Comprehensive Income. Reserve estimates are prepared in accordance with guidelines prepared by the Society of Petroleum Engineers.

## Note 3. Financial Risk Management Objectives and Policies

### Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk; and
- market risk.

The Board has overall responsibility for the establishment and oversight of the risk management framework. The Board has established the Audit and Risk Committee, which is responsible for developing and monitoring risk management policies.

Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group does not enter into or trade in financial instruments, including derivative financial instruments, for speculative purposes. The use of financial instruments is governed by the Group's policies approved by the Board, which provide written principles on the use of financial derivatives.

The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk and commodity price risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to foreign exchange and interest rate risk and assessments of market forecasts for foreign exchange rates, interest rates and commodity prices. Monitoring of specific debtor balances is undertaken to manage credit risk and liquidity risk is monitored through the development of future rolling cash flow forecasts.

## Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables and derivative instruments.

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral or other security, where appropriate, as a means of mitigating the risk of financial loss from defaults.

The carrying amount of financial assets recorded in the financial statements, net of any provisions for losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral or other security obtained.

The Group does not hold any credit derivatives to offset its credit exposure.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation. Risk limits are assessed for each individual customer and are regularly monitored.

In addition, receivable balances are monitored on an ongoing basis, with the result being that the Group's exposure to bad debts is not significant. Currently, there are no material receivables that are in arrears.

## Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

For the financial year ended 31 December 2012

<b>Consolidated (US\$'000)</b>	<b>6 months or less</b>	<b>6 months - 1 year</b>	<b>1 - 4 year(s)</b>	<b>Total</b>
Trade and other payables	36,088	–	–	36,088
	<b>36,088</b>	<b>–</b>	<b>–</b>	<b>36,088</b>

For the financial year ended 31 December 2011

<b>Consolidated (US\$'000)</b>	<b>6 months or less</b>	<b>6 months - 1 year</b>	<b>1 - 4 year(s)</b>	<b>Total</b>
Trade and other payables	48,136	–	–	48,136
Bank loan	282	282	16,410	16,974
	<b>48,418</b>	<b>282</b>	<b>16,410</b>	<b>65,110</b>

Ultimate responsibility for liquidity risk management rests with the Board, which has built an appropriate liquidity risk framework for the management of the Group's short, medium and longer term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate banking and borrowing facilities and through the monitoring of future rolling cash flow forecasts of its operations, which reflect management's expectations of the settlement of financial assets and liabilities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued

## Note 3. Financial Risk Management Objectives and Policies (continued)

### Market risk

AASB 7 *Financial Instruments: Disclosures* requires disclosures that categorise assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs employed in the measurement. Level 1 inputs are quoted prices in active markets, Level 2 inputs are observable inputs other than quoted prices, and Level 3 inputs are unobservable inputs for the asset or liability.

The fair value hierarchy for the financial assets and liabilities accounted for as at 31 December 2012 consisted of the oil price derivatives as disclosed in Note 14 which have been classified as Level 2. There were no Level 1 or Level 3 financial assets or liabilities as at 31 December 2012, and there were no movements between any of the levels during the period.

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and commodity prices, will affect the Group's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group enters into derivatives, and also incurs financial assets and liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Audit and Risk Committee.

### Foreign currency risk

The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of Group entities.

The majority of the Group's cash flows are denominated in USD; however, the Group is exposed to certain non-USD cash balances. As at 31 December 2012, the non-USD cash balances amounted to US\$26.6 million. The impact on the profit for the year assuming a +10% or -10% change in the foreign exchange rate would be US\$2.7 million (2011: US\$0.8 million).

### Interest rate risk

The Group's exposure to market interest rates relates primarily to the Group's cash assets (refer to Note 11) and long term debt obligations and the level of debt (refer to Note 19).

A change of 100 basis points per annum in interest rates at the reporting date would have increased or decreased profit for the year by US\$0.1 million (2011: US\$0.3 million). This analysis assumes that all other variables remain constant. As a result, the Group's exposure to interest rate risk is minimal.

### Commodity price risk

The Group is exposed to the movement in commodity prices, primarily the movement in oil price. In order to manage this exposure and its effect on sales revenue, the Group enters into certain derivative instruments, in relation to the commodity price of a proportion of its forecast production from time to time in accordance with the Board approved hedging policy.

These derivatives tend to be priced using benchmarks which correlate as far as possible to the underlying oil revenue (refer to Note 14).

At 31 December 2012, the Group had no derivatives (2011: US\$1.3 million asset).

The following sensitivity is based on the crude oil price risk exposures for derivatives in existence at the balance date. Had the crude oil price moved, as illustrated below, with all other variables held constant, post-tax profit and equity would have been affected as follows:

		Post-Tax Profit Higher/Lower		Equity Higher/Lower	
		2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Judgement of reasonably possible movements					
<b>Consolidated</b>					
Crude oil price	+US\$10/BBL	-	(1,492)	-	-
Crude oil price	-US\$10/BBL	-	1,492	-	-

### Fair value of financial instruments

The Directors consider that the carrying amounts of the financial assets and liabilities recorded in the financial statements approximate their fair values unless otherwise stated.

The fair values are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on an active liquid market is determined with reference to the quoted price; and
- the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

### Capital management

The Group's objective when managing capital is to maintain an efficient capital structure so that it can continue to provide returns for shareholders and benefits for other stakeholders. Capital requirements are determined based on rolling forecasts of operating and capital expenditure cash flows which are based on assumptions on oil prices, production and exploration and development capital costs. The Group manages its capital (debt plus equity) by maintaining adequate banking facilities and other funding and adjusting discretionary capital expenditure as appropriate.

	2012 US\$'000	2011 US\$'000
<b>Note 4. Sales Revenue</b>		
Oil	240,786	286,757
NGL	1,281	20
Hedging loss	-	(946)
	<b>242,067</b>	<b>285,831</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued

	2012 US\$'000	2011 US\$'000
<b>Note 5. Operating Costs</b>		
Production costs	35,710	46,885
Amortisation	70,871	84,500
Movement in stock and overlift	(2,536)	3,341
Royalty and other levies	31,872	43,138
	<b>135,917</b>	<b>177,864</b>

## Note 6. Other Income

Interest income – external	3,967	193
	<b>3,967</b>	<b>193</b>

## Note 7. Exploration Expensed

Africa	(298)	5,052
China	12,105	–
Other	6,274	8,496
	<b>18,081</b>	<b>13,548</b>

## Note 8. Other Costs

Operating lease expenses	950	681
Depreciation	810	795
General and administration costs	10,310	9,965
Share-based payments	735	965
Net foreign currency loss	608	581
	<b>13,413</b>	<b>12,987</b>

## Note 9. Finance Costs

Interest expensed on bank loans	607	510
Unwinding of discount – restoration provision	3,684	3,632
Other finance costs	2,304	1,861
	<b>6,595</b>	<b>6,003</b>

	2012 US\$'000	2011 US\$'000
<b>Note 10. Income Tax</b>		
<b>(a) Composition of income tax</b>		
Income tax charge – current period	(33,457)	(54,334)
Income tax credit/(charge) – prior period	15,688	(346)
PRRT – current period	(17,289)	(5,974)
Deferred income tax – current period	11,259	13,395
Deferred income tax – change in tax rate	–	(5,401)
Deferred income tax – PRRT	2,018	(264)
<b>Income tax expense</b>	<b>(21,781)</b>	<b>(52,924)</b>

The prior period adjustment relates mainly to Research & Development and timing differences.

**(b) Recognised tax liabilities and assets**

	2012 Current Tax Liabilities US\$'000	2012 Deferred Income Tax Liabilities US\$'000	2011 Current Tax Liabilities US\$'000	2011 Deferred Income Tax Liabilities US\$'000
Opening balance	(21,195)	(26,662)	(14,786)	(34,392)
(Charged)/credited to income	(35,059)	13,277	(60,654)	7,730
Cash payments	46,950	–	53,958	–
Asset sold	(403)	–	–	–
Translation loss	(237)	–	287	–
	<b>(9,944)</b>	<b>(13,385)</b>	<b>(21,195)</b>	<b>(26,662)</b>

Deferred income tax at 31 December relates to the following:

	2012 US\$'000	2011 US\$'000
<b>(i) Deferred tax assets</b>		
Asset timing differences	8,980	2,550
Provisions	4,041	2,565
<b>Net deferred tax assets</b>	<b>13,021</b>	<b>5,115</b>
<b>(ii) Deferred tax liabilities</b>		
Asset timing differences	(20,261)	(22,862)
Provisions	3,726	2,975
PRRT	(9,871)	(11,890)
<b>Net deferred tax liabilities</b>	<b>(26,406)</b>	<b>(31,777)</b>
<b>Total net deferred tax liabilities</b>	<b>(13,385)</b>	<b>(26,662)</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued

## Note 10. Income Tax (continued)

	2012 US\$'000	2011 US\$'000
<b>(c) Tax losses</b>		
Tax losses not recognised - revenue	68,944	84,999
<b>(d) Income tax reconciliation</b>		
The prima facie income tax expense on pre-tax accounting profit reconciles to income tax expense in the financial statements as follows:		
<hr/>		
<b>Profit before income tax</b>	<b>82,735</b>	<b>80,671</b>
Prima facie income tax expense calculated as 30% of profit before income tax	(24,821)	(24,201)
<b>Tax effect of adjustments</b>		
Non-deductible expenses	(1,497)	(4,231)
Non-assessable income	4,489	–
Overseas tax rate differential	(1,198)	(10,713)
Prior year over/(under) provision	15,688	(346)
Tax losses not brought into account	(2,257)	(8,566)
PRRT	(15,270)	(6,238)
Other	3,085	1,371
<b>Income tax expense</b>	<b>(21,781)</b>	<b>(52,924)</b>

### (e) Tax consolidation

The Company and its wholly-owned Australian resident entities are part of a tax consolidated group under Australian taxation law. ROC is the head entity in the tax consolidated group.

Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax consolidated group are recognised in the separate financial statements of the members of the tax consolidated group using the 'stand-alone taxpayer' approach. Current tax liabilities and deferred tax assets arising from unused tax losses and tax credits of the members of the tax consolidated group are recognised by the Company (as head entity in the tax consolidated group).

Due to the existence of a tax funding arrangement between the entities in the tax consolidated group, amounts are recognised as payable to or receivable by the Company and each member of the group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax consolidated group in accordance with the arrangement.

	2012 US\$'000	2011 US\$'000
<b>Note 11. Cash Assets</b>		
Cash and cash equivalents	56,783	39,624
	<b>56,783</b>	<b>39,624</b>

**Reconciliation of net profit before tax to cash generated from operations**

Net profit before tax	82,735	80,671
<b>Add/(less) non-cash items</b>		
Amortisation	70,871	84,500
Reversal of prior period impairment of oil and gas assets	–	(18,633)
Provision for restoration costs	3,379	–
Depreciation	810	795
Other provisioning	146	445
Net foreign currency loss	608	581
Gain on sale of oil and gas exploration and development assets	(10,315)	(40)
Foreign currency translation reserve gain on liquidation of subsidiary	(4,649)	–
Share-based payments	735	965
<b>Add/(less) non-operating items</b>		
Net derivative losses	878	14,086
Interest income	(3,967)	(193)
Finance costs	6,595	6,003
Exploration expensed	18,081	13,548
Impairment of exploration asset	–	484
<b>Changes in net assets and liabilities</b>		
Decrease/(increase) in current trade and other receivables	43,204	(35,517)
Decrease in inventories	1,647	1,249
(Decrease)/increase in trade and other payables	(20,422)	27,222
<b>Cash generated from operations</b>	<b>190,336</b>	<b>176,166</b>

**Note 12. Trade and Other Receivables**

Trade receivables	16,991	51,561
Other receivables	8,483	15,774
	<b>25,474</b>	<b>67,335</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued

	2012 US\$'000	2011 US\$'000
<b>Note 13. Information Relating to Roc Oil Company Limited ('parent entity')</b>		
Current assets	185,538	10,063
Total assets	224,048	107,134
Current liabilities	3,324	3,424
Total liabilities	4,552	4,536
<b>Net assets</b>	<b>219,496</b>	<b>102,598</b>
Share capital	734,150	734,150
Accumulated losses	(596,697)	(712,860)
Share equity reserve	12,459	11,724
Foreign currency translation reserve	69,584	69,584
<b>Total equity</b>	<b>219,496</b>	<b>102,598</b>
Net profit of the parent entity	116,163	23,026
Total comprehensive profit of the parent entity	116,163	23,026

The Company's present intention is to provide the necessary financial support for all Australian incorporated controlled entities, whilst they remain controlled entities, as is necessary for each company to pay all debts when they become due.

The Company has guaranteed the performance of Roc Oil (Finance) Pty Limited and other ROC subsidiaries in relation to finance obligations under the loan facility referred to in Note 19. The Company has provided a parent company guarantee to Petroliam Nasional Berhad (PETRONAS) guaranteeing the performance of the obligation of its 48% interest in Balai Cluster Risk Service Contract.

## Note 14. Derivatives

At fair value:

Oil price swaps	-	1,318
	<b>-</b>	<b>1,318</b>

## Note 15. Inventories

Oil and gas stock	658	2,305
	<b>658</b>	<b>2,305</b>

	Producing Assets US\$'000	Assets under Development US\$'000	Total US\$'000
<b>Note 16. Oil and Gas Assets</b>			
<b>Costs</b>			
Balance at 1 January 2011	953,246	16,375	969,621
Development expenditure incurred	27,260	3,496	30,756
Increase in restoration asset	3,777	–	3,777
Acquisition cost	2,112	–	2,112
<b>Costs at 31 December 2011</b>	<b>986,395</b>	<b>19,871</b>	<b>1,006,266</b>
Development expenditure incurred	26,667	38,609	65,276
Increase in restoration asset	8,542	6,056	14,598
Transfer from exploration and evaluation expenditure	–	10,973	10,973
Asset disposal	(46,575)	–	(46,575)
<b>Costs at 31 December 2012</b>	<b>975,029</b>	<b>75,509</b>	<b>1,050,538</b>
<b>Accumulated amortisation</b>			
Balance at 1 January 2011	(722,057)	–	(722,057)
Charge for the year	(84,500)	–	(84,500)
Reversal of prior period impairment of oil and gas assets (see note (a) below)	18,633	–	18,633
<b>Accumulated amortisation at 31 December 2011</b>	<b>(787,924)</b>	<b>–</b>	<b>(787,924)</b>
Charge for the year	(70,871)	–	(70,871)
Asset disposal	45,549	–	45,549
<b>Accumulated amortisation at 31 December 2012</b>	<b>(813,246)</b>	<b>–</b>	<b>(813,246)</b>
<b>Net book value at 31 December 2012</b>	<b>161,783</b>	<b>75,509</b>	<b>237,292</b>
Net book value at 31 December 2011	198,471	19,871	218,342

#### Impairment

Impairment tests are performed when there is an indication of impairment. Each oil and gas producing asset is considered a separate cash-generating unit.

The asset valuations are based on cash flow forecasts using 2P reserves. The key assumptions used in the cash flow forecasts include the following:

- oil price: forward market for two years and US\$90/BBL (2011: US\$85/BBL) thereafter; and
- discount rates: the post-tax discount rate of 10% per annum.

Asset valuations, based on cash flow projections, use a range of assumptions that are subject to change. Accordingly, losses are sensitive to reasonable possible changes in key assumptions

(a) In 2011 the reversal of prior period impairment was attributable to a reversal of a prior year impairment of US\$18.6 million (US\$14.0 million post tax) for the Zhao Dong Oil Field as a result of the discounted cash flow, using a pre-tax discount rate of 14% per annum, improving due to higher oil prices and a favourable change in the Chinese special oil income levy compared to year end 2010.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued

	2012 US\$'000	2011 US\$'000
<b>Note 17. Exploration and Evaluation Expenditure</b>		
Opening balance	1,169	4,867
Expenditure incurred	28,979	15,917
Expenditure transferred to assets under development	(10,973)	-
Amounts expensed	(18,081)	(13,548)
Assets sold	-	(5,583)
Impairment of exploration asset	-	(484)
	<b>1,094</b>	<b>1,169</b>

The ultimate recovery of the capitalised exploration and evaluation expenditure is dependent on the successful development and commercial exploitation or the commercial sale of the relevant areas of interest.

## Note 18. Property, Plant and Equipment

Costs		
Opening balance	7,759	7,261
Expenditure incurred	212	498
<b>Costs at 31 December</b>	<b>7,971</b>	<b>7,759</b>
Accumulated depreciation		
Opening balance	(6,081)	(5,286)
Charge	(810)	(795)
<b>Accumulated depreciation at 31 December</b>	<b>(6,891)</b>	<b>(6,081)</b>
<b>Net book value</b>	<b>1,080</b>	<b>1,678</b>

	2012 US\$'000	2011 US\$'000
<b>Note 19. Bank Loans</b>		
(a) Secured bank loan - maturing June 2015	-	13,082
<b>Total</b>	<b>-</b>	<b>13,082</b>

**(b) Terms and conditions**

*Secured bank loan*

The amortising facility, maturing in June 2015, has been provided by Commonwealth Bank of Australia, BNP Paribas (Sydney Branch) and Sumitomo Mitsui Banking Corporation.

The annual interest rate is USD LIBOR plus a fixed margin. The effective interest rate is 3.74% per annum.

**(c) Financing facilities available**

At reporting date, the following financing facilities had been negotiated and were available:

Total loan facilities:	91,000	110,000
Facilities used at reporting date:	-	15,000
Facilities unused at reporting date:	91,000	95,000

**(d) Assets mortgaged as security**

*Secured bank loan*

The Company has guaranteed the performance of Roc Oil (Finance) Pty Limited and other ROC subsidiaries (which have also given guarantees) and related hedging agreements in relation to the loan facility from Commonwealth Bank of Australia, BNP Paribas (Sydney Branch) and Sumitomo Mitsui Banking Corporation. Roc Oil (Finance) Pty Limited has granted a first registered fixed and floating charge over all its assets and undertakings and the Company has granted a first registered featherweight floating charge over all its assets and undertakings in favour of CBA Corporate Services (NSW) Pty Limited as security trustee. In addition, the shares of the following ROC subsidiaries have been mortgaged to CBA Corporate Services (NSW) Pty Limited: Roc Oil (WA) Pty Limited, Roc Oil (Bohai) Company, Roc Oil (China) Company and Roc Oil (GB) Limited. Roc Oil (GB) Limited has also granted a charge over its proceeds account to CBA Corporate Services (NSW) Pty Limited as security trustee. The net book value of Roc Oil (Finance) Pty Limited and the entities in which shares have been mortgaged is US\$198.5 million.

**(e) Foreign exchange, interest rate and liquidity risks**

Information regarding foreign exchange, interest rate and liquidity risks of the bank loan is set out in Note 3.

**(f) Fair value**

The fair value of the Group borrowings was US\$Nil (2011: US\$15,000,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued

Name of Entity	Country of Incorporation	Ownership and Voting Interest 2012 %	Ownership and Voting Interest 2011 %
<b>Note 20. Controlled Entities</b>			
<b>Name of Entity</b>			
<b>Parent entity</b>			
Roc Oil Company Limited	Australia		
<b>Controlled entities</b>			
Roc Oil (WA) Pty Limited	Australia	100	100
Roc Oil (Madagascar) Pty Limited	Australia	100	100
Roc Oil Australia Holdings Pty Ltd	Australia	100	100
Roc Oil International Holdings Pty Ltd	Australia	100	100
Elixir Corporation Pty Ltd	Australia	– <sup>(1)</sup>	100
Roc Oil (Finance) Pty Limited	Australia	100	100
Anzon Energy Pty Limited	Australia	100	100
Roc Oil (VIC) Pty Limited	Australia	100	100
Roc Oil (Exploration No. 1) Pty Limited	Australia	100	100
Roc Oil (Ventures) Pty Limited	Australia	100	100
Roc Oil (Taranaki) Pty Limited	Australia	100	100
Roc Oil (Tasman) Pty Limited	Australia	100	100
Roc Oil (Malaysia) Pty Limited	Australia	100	100
Roc Oil Malaysia (Holdings) Sdn Bhd	Malaysia	100	100
Anzon Energy Mauritius	Mauritius	100	100
Anzon Investments Limited	Mauritius	100	100
Anzon Africa Limited	Mauritius	100	100
PT Anzon Energy Indonesia	Indonesia	100	100
Roc Oil (New Zealand) Limited	New Zealand	– <sup>(1)</sup>	100
Anzon Energy Nigeria Limited	Nigeria	100	100
Roc Oil Holdings (Cayman Islands) Company	Cayman Islands	100	100
Roc Oil (Bohai) Company	Cayman Islands	100	100
Roc Oil (China) Company	Cayman Islands	100	100
Roc Oil (Cabinda) Company	Cayman Islands	100	100
Roc Oil (Mauritania) Company	Cayman Islands	100	100
Roc Oil (Casamance) Company	Cayman Islands	– <sup>(1)</sup>	100
Roc Oil (Equatorial Guinea) Company	Cayman Islands	100	100
Roc Oil (Angola) Ltd	Cayman Islands	100	100
Lacula Oil Company Ltd	Cayman Islands	100	100
Roc Oil (Maboque) Company	Cayman Islands	– <sup>(1)</sup>	100
Roc Oil (Falklands) Limited	United Kingdom	100	100
Roc Oil (Europe) Limited	United Kingdom	100	100
Roc Oil (GB Holdings) Limited	United Kingdom	100	100
Roc Oil (GB) Limited	United Kingdom	100	100
Roc Oil (North Sea) Limited	United Kingdom	100	100
Roc Oil (Chinguetti) B.V.	Netherlands	100	100

(1) Liquidated during the period.

	2012 US\$'000	2011 US\$'000
<b>Note 21. Current Trade and Other Payables</b>		
Trade and other payables	21,369	30,847
Accrued liabilities	13,126	12,072
Stock overlift	1,593	5,217
	<b>36,088</b>	<b>48,136</b>

	Employee Benefits US\$'000	Restoration US\$'000	Total US\$'000
<b>Note 22. Provisions</b>			
Balance at 1 January 2012	2,661	74,425	77,086
Additions	1,772	22,351	24,123
Disposals	–	(10,173)	(10,173)
Unwinding of discount	–	3,684	3,684
Utilised	(1,626)	(15,410)	(17,036)
Translation adjustments	53	–	53
<b>Balance at 31 December 2012</b>	<b>2,860</b>	<b>74,877</b>	<b>77,737</b>
Current – 2012	1,632	9,236	10,868
Non-current – 2012	1,228	65,641	66,869
<b>Total 2012</b>	<b>2,860</b>	<b>74,877</b>	<b>77,737</b>
Current – 2011	1,548	11,543	13,091
Non-current – 2011	1,113	62,882	63,995
<b>Total 2011</b>	<b>2,661</b>	<b>74,425</b>	<b>77,086</b>

The employee benefits provisions relate to annual leave and long service leave.

The restoration provisions relate to the estimated costs associated with the restoration of sites that will be incurred at the conclusion of the economic life of the asset. The additions during the year relates to re-determination of the abandonment provision for Cliff Head, Zhao Dong and Beibu. The utilised amount of US\$15.4 million relates to cost incurred to suspend the BMG project. The legislation in China also requires the provision for abandonment to be paid over the remaining life of the field; accordingly, US\$6.3 million abandonment provision for Zhao Dong and Beibu is shown in current.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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	2012 Number of Shares	2011 Number of Shares	2012 US\$'000	2011 US\$'000
<b>Note 23. Share Capital</b>				
Balance at beginning of financial year	682,506,352	713,154,560	734,150	744,201
Issue of shares pursuant to the exercise of rights under the Long Term Incentive Plan	729,200	100,000	–	–
Cancellation of shares pursuant to the Company's on-market share buy-back	–	(30,748,208)	–	(10,051)
<b>Balance at end of financial year</b>	<b>683,235,552</b>	<b>682,506,352</b>	<b>734,150</b>	<b>734,150</b>

All issued fully paid ordinary shares carry one vote per share and carry the right to dividends.

## Note 24. Employee Benefits

### (a) Long Term Incentive Plan ('LTI')

The employee LTI is an "at risk" equity-based incentive plan designed to generate performance-based awards of share rights that may be converted into fully paid ordinary shares in the Company on satisfaction of performance conditions and Board approval.

Features of the LTI include:

- there is a grant of rights to acquire fully paid ordinary shares in the Company, at no cost to a participant;
- the number of rights granted is based on an employee's level in the Company and individual and/or Company performance;
- the rights will only become exercisable if certain performance conditions are met within defined periods;
- there will be three tiers of rights with separate vesting criteria:
  - Tier One - vesting will occur subject to the satisfaction of the performance condition which relates to the Total Shareholder Return ('TSR') growth of ROC measured over the performance period;
  - Tier Two - vesting will occur subject to the satisfaction of the performance condition which relates to a relative TSR test over the performance period against a subset of conventional oil and gas companies; and
  - Tier Three - vesting will be subject to a participant being continuously employed by the Group throughout the performance period. The number of rights granted under Tier Three cannot exceed 20% of the total grant;
- there is no re-testing of performance conditions; and
- the rights lapse when a participant ceases to be employed by ROC other than in certain circumstances relating to death, injury, permanent disability, redundancy, retirement or sale of business.

A summary of the rights granted under the LTI is as follows:

<b>Grant Date</b>	<b>Vesting Date</b>	<b>Opening Balance 1 Jan 2012</b>	<b>Granted</b>	<b>Exercised</b>	<b>Lapsed/ Cancelled</b>	<b>Closing Balance 31 Dec 2012</b>	<b>ROC Share Price at Date of Issue A\$</b>
29 March 2010	29 March 2012	1,895,000	–	(729,200)	(1,165,800)	–	0.36
12 November 2010	12 November 2013	4,980,000	–	–	(801,000)	4,179,000	0.43
7 March 2011	7 March 2014	1,500,000	–	–	–	1,500,000	0.39
16 December 2011	16 December 2014	5,475,000	–	–	(935,000)	4,540,000	0.27
29 February 2012	1 March 2015	–	500,000	–	–	500,000	0.41
13 September 2012	13 September 2015	–	500,000	–	–	500,000	0.38
		<b>13,850,000</b>	<b>1,000,000</b>	<b>(729,200)</b>	<b>(2,901,800)</b>	<b>11,219,000</b>	

The fair value of the rights has been calculated at the grant date and allocated to each reporting period from grant date to vesting date. The rights outstanding at 31 December 2012 have a fair value in the range of A\$0.20 to A\$0.33 each, and a weighted average remaining contractual life of 1.5 years.

The fair value of the rights has been calculated using the Monte Carlo simulation technique with the following assumptions for each grant date:

	<b>13 September 2012</b>	<b>29 February 2012</b>
Share price	A\$0.38	A\$0.41
Share price volatility	65%	65%
Risk free rate per annum	2.7%	3.6%
Dividend yield per annum	0%	0%
Share price correlation between companies	35%	30%

The rights granted during the year are subject to non-market performance conditions. Non-market performance conditions are not taken into account in the grant date fair value measurement.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued

## Note 24. Employee Benefits (continued)

### (b) Employee Share Option Plan and Executive Share Option Plan

The Company has two share option plans, the Employee Share Option Plan and the Executive Share Option Plan. These plans were replaced in 2010 by the LTI and no new issues under either option plans will occur. The details of the option plans are set out below:

#### *Employee Share Option Plan*

Under the Employee Share Option Plan, the options granted vest after two years. Options expire five years after they are granted.

The exercise price of the options is the price of the sale of ROC shares on the ASX on the day of the grant.

Options may be exercised two years after the date the option was granted. If there is a change of control of the Company, all unexercised options will become immediately exercisable.

The following table reconciles the outstanding share options granted under the Employee Share Option Plan at the beginning and end of the financial year:

	2012		2011	
	Number of Options	Weighted Average Exercise Price A\$	Number of Options	Weighted Average Exercise Price A\$
Balance at beginning of financial year	2,670,000	0.79	3,611,500	1.29
Granted	–	–	–	–
Exercised	–	–	–	–
Forfeited	(792,000)	0.66	(135,000)	0.56
Lapsed	–	–	(806,500)	3.05
<b>Balance at end of financial year</b>	<b>1,878,000</b>	<b>0.85</b>	<b>2,670,000</b>	<b>0.79</b>
<b>Exercisable</b>	<b>1,878,000</b>	<b>0.85</b>	<b>2,670,000</b>	<b>0.79</b>

The range of exercise prices at the end of the financial year is between A\$0.54 and A\$2.51 per share, with a weighted average remaining contractual life of 0.9 years.

#### *Executive Share Option Plan*

Under the rules of the Executive Share Option Plan, 30% of the options granted vest after two years. An additional 30% vest after three years and the remaining 40% vest after four years. Options expire six years after they are granted. Of the options granted to an employee, 50% are performance options and are only exercisable if certain share performance benchmarks are met and 50% are price options which require share price performance measures to be met.

The exercise price of performance options is calculated as the volume weighted average price for sale of ROC shares on the ASX in the 90 days before the grant date. The exercise price for price options is calculated as 115%, 122.5% and 130% of this price respectively over the vesting period.

	2012		2011	
	Number of Options	Weighted Average Exercise Price A\$	Number of Options	Weighted Average Exercise Price A\$
Balance at beginning of financial year	4,126,000	2.99	5,671,500	2.96
Granted	–	–	–	–
Exercised	–	–	–	–
Forfeited	(590,000)	3.05	(955,000)	3.50
Lapsed	(2,036,000)	3.43	(590,500)	1.86
<b>Balance at end of financial year</b>	<b>1,500,000</b>	<b>2.36</b>	<b>4,126,000</b>	<b>2.99</b>
<b>Exercisable</b>	<b>1,500,000</b>	<b>2.36</b>	<b>1,183,000</b>	<b>2.74</b>

The range of exercise prices at the end of the financial year is between A\$0.65 and A\$4.13 per share, with a weighted average remaining contractual life of 1.2 years.

#### (c) Superannuation plans

The Company makes contributions to complying accumulation type superannuation plans nominated by individual employees. The contribution made by the Company contributes at least the amount required under the Superannuation Guarantee Law. The amount recognised as an expense was US\$783,474 for the financial year ended 31 December 2012 (2011: US\$666,410).

#### (d) Employee benefits expensed

	2012 US\$'000	2011 US\$'000
Salaries and wages	13,392	14,752
Share-based payments	735	965
Other associated personnel costs	2,442	2,660
	<b>16,569</b>	<b>18,377</b>

Salaries and wages and other associated personnel costs are allocated to various Consolidated Statement of Comprehensive Income categories based on the nature of the expenditure.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## Note 25. Earnings per Share

Basic earnings per share amounts are calculated by dividing the net profit for the year by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit for the year by the weighted average number of ordinary shares outstanding during the year, adjusted by the effects of dilutive share options and rights.

The following table reflects the share data used in the total operations' basic and diluted earnings per share computations:

	2012 Number of Shares	2011 Number of Shares
Weighted average number of ordinary shares for basic earnings per share	682,992,485	705,265,487
Effect of dilution:		
Rights	12,788,981	8,656,904
Adjusted weighted average number of ordinary shares for diluted earnings per share	695,781,466	713,922,391
Weighted average number of converted, lapsed or cancelled potential ordinary shares included in the calculation of diluted earnings per share	1,550,778	300,137
Weighted average number of shares that were not included in the calculation of earnings per share as they are anti-dilutive	-	-

## Note 26. Segment Information

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Chief Executive Officer in assessing performance and in determining the allocation of resources.

The operating segments identified by management are based on each individual oil and gas field. Discrete pre-tax financial information about each of these fields is reported to the Chief Executive Officer on a monthly basis.

For the financial year ended 31 December 2012:

US\$'000	BMG Australia	Cliff Head Australia	Blane UK	Enoch UK	Chinguetti Africa	Zhao Dong China	Beibu China	Other	Total
Sales revenue	-	54,011	23,630	2,494	4,538	157,376	-	18	242,067
Production costs	-	12,557	3,900	2,633	1,744	14,860	-	16	35,710
Amortisation	-	8,068	5,137	243	432	56,988	-	3	70,871
Segment results <sup>(1)</sup>	-	33,323	15,016	(1,488)	1,814	57,483	-	2	106,150
Exploration and Development expenditure incurred	-	-	-	-	-	36,919	51,359	5,977	94,255
Segment assets	1,058	44,018	25,264	7,915	-	110,739	79,792	1,133	269,919
Current restoration provision	2,887	-	-	-	-	5,372	977	-	9,236
Non-current restoration provision	27,728	14,588	4,875	2,577	-	10,794	5,079	-	65,641

For the financial year ended 31 December 2011:

US\$'000	BMG Australia	Cliff Head Australia	Blane UK	Enoch UK	Chinguetti Africa	Zhao Dong China	Beibu China	Other	Total
Sales revenue	297	43,831	57,224	11,006	6,018	168,375	–	(920)	285,831
Production costs	–	20,796	4,389	989	2,796	17,886	–	29	46,885
Amortisation	–	6,860	9,625	1,958	1,093	64,962	–	2	84,500
Segment results <sup>(1)</sup>	41	16,430	31,798	8,507	2,839	49,304	–	(952)	107,967
Reversal of prior period impairment of oil and gas assets	–	–	–	–	–	(18,633)	–	484	(18,149)
Exploration and Development expenditure incurred	–	–	(201)	–	22	27,439	3,999	15,414	46,673
Segment assets	975	52,718	41,412	9,146	2,597	155,087	25,084	1,411	288,430
Current restoration provision	9,928	–	–	–	–	1,615	–	–	11,543
Non-current restoration provision	26,653	11,759	3,732	2,218	9,876	8,644	–	–	62,882

Note:

(1) Total segment results ('trading profit') is reconciled to profit before income tax in the Consolidated Statement of Comprehensive Income.

In assessing the segment performance on a monthly basis, the Executive Committee analyses the segment results as described above and its relation to segment assets. Segment assets are those operating assets of the entity that the Executive Committee views as directly attributable to the performance of the segment. These assets include cash, trade receivables, inventories and oil and gas assets.

In this period Beibu China has been separately identified as a segment as the field is nearing production.

During the financial year ended 31 December 2012, all oil and gas sales have been made to various international oil companies. For each segment, with the exception of Chinguetti, sales have been made to individual customers.

Reconciliation of segment assets to total assets:

	2012 US\$'000	2011 US\$'000
Segment assets	269,919	288,430
Cash assets	45,539	36,122
Receivables	18,864	10,656
Property, plant and equipment	1,080	1,678
Investments in associate companies	33,422	15,999
<b>Total assets per the Consolidated Statement of Financial Position</b>	<b>368,824</b>	<b>352,885</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## Note 27. Related Party Disclosures

ROC and its controlled entities engage in a variety of related party transactions in the ordinary course of business. These transactions are generally conducted on normal terms and conditions.

Details of related party transactions and amounts are set out in:

- Note 20 as to investments in controlled entities;
- Note 30 as to investments in associate companies; and
- Note 32 as to disclosures relating to key management personnel.

	2012 US\$'000	2011 US\$'000
<b>Note 28. Commitments for Expenditure</b>		
<b>(a) Capital commitments</b>		
<b>Not longer than one year</b>		
Joint ventures	28,824	23,479
<b>Longer than one year but not longer than five years</b>		
Joint ventures	11,000	–
	<b>39,824</b>	<b>23,479</b>
<b>(b) Operating lease expenditure commitments</b>		
Not longer than one year	4,781	3,285
Longer than one year but not longer than five years	5,178	4,842
Longer than five years	93	1,177
	<b>10,052</b>	<b>9,304</b>

## Note 29. Joint Ventures

The Group has an interest (rounded to two decimal places) in the following joint ventures as at 31 December 2012:

Country	Block	Principal Activities	Interest 2012 %	Interest 2011 %
Australia	WA-31-L (Cliff Head)	Oil production	42.50	42.50
	L14 (Jingemia)	Oil production	0.25	0.25
	VIC/L26, VIC/L27, VIC/L28 (BMG)	Oil production	37.5 <sup>(1)</sup>	30.00
New Zealand	PEP52181	Oil and gas exploration	– <sup>(2)</sup>	50.00
Equatorial Guinea	Block H	Oil and gas exploration	20.00	20.00
Mauritania	Area A	Oil and gas exploration	– <sup>(3)</sup>	4.16
	Area B (Chinguetti)	Oil and gas exploration/ production	– <sup>(3)</sup>	3.69/3.25 <sup>(4)</sup>
	Area C Block 2	Oil and gas exploration	– <sup>(3)</sup>	5.49
	Area C Block 6	Oil and gas exploration	– <sup>(3)</sup>	5.00
	Block 1	Oil and gas exploration	– <sup>(3)</sup>	2.00
	Block 7	Oil and gas exploration	– <sup>(3)</sup>	4.95
Mozambique Channel	Juan de Nova Maritime Profond (France)	Oil and gas exploration	75.00 <sup>(5)</sup>	75.00 <sup>(5)</sup>
China	Beibu Gulf Development Areas (formerly Block 22/12)	Oil and gas development	40.00/19.60 <sup>(6)</sup>	40.00/19.60 <sup>(6)</sup>
	Zhao Dong Block (C and D Fields/C4 Field)	Oil development/production	24.50/11.58 <sup>(7)</sup>	24.50/11.58 <sup>(7)</sup>
	Chenghai and Zhanghai Blocks	Oil appraisal/development/ production	80.00/39.20 <sup>(8)</sup>	80.00/39.20 <sup>(8)</sup>
	Bohai 09/05	Oil and gas exploration	100.00	-
UK North Sea	P111 (Block 30/3a Upper) (Blane)	Oil and gas production	15.24/12.50 <sup>(9)</sup>	15.24/12.50 <sup>(9)</sup>
	P219 (Block 16/13a and 16/13e) (Enoch)	Oil and gas production	15.00/12.00 <sup>(9)</sup>	15.00/12.00 <sup>(9)</sup>

Note:

- (1) The withdrawal of CIECO Exploration and Production (Australia) Pty Ltd from the BMG Joint Venture, effective 31 December 2012, is being finalised amongst the joint venture parties and will result in a pro rata distribution amongst the remaining BMG Joint Venture parties. Subject to regulatory approval, ROC will hold 37.5% interest in the BMG Joint Venture.
- (2) ROC withdrew effective 18 May 2012.
- (3) ROC sold its interests in Offshore Mauritania effective 26 July 2012 except for Area C Block 6 which was effective 30 December 2012.
- (4) Interest in producing Chinguetti Oil and Gas Field post-government back-in.
- (5) Sale to South Atlantic Petroleum JDN SAS has occurred with the signed sale and purchase agreement subject to final government approval.
- (6) Interest in field development post-government back-in.
- (7) Unitised interest in the C4 Field.
- (8) Interest in development/production following government back-in.
- (9) Unitised interest in producing Blane and Enoch Fields.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued

## Note 29. Joint Ventures (continued)

The Group's share of net working interest production from the above joint ventures during the financial year was 2.4 MMBOE (2011: 2.7 MMBOE).

The following amounts represent the Group's interest in assets and liabilities in the above joint venture operations. The amounts are included in the financial statements as follows:

	2012 US\$'000	2011 US\$'000
Current assets	10,014	9,497
Non-current assets	238,386	219,512
<b>Total assets</b>	<b>248,400</b>	<b>229,009</b>
Current liabilities	10,116	20,512
Non-current liabilities	65,641	62,882
<b>Total liabilities</b>	<b>75,757</b>	<b>83,394</b>

Exploration expenditure commitments and contingent liabilities in respect of joint venture operations are detailed in Note 28 and Note 33 respectively.

## Note 30. Associate Companies

Details of investments in associate companies are as follows:

Name of Associate Company	Country of Incorporation	Principal Activity	Balance Date	Beneficial Interest in Ordinary Shares at 31 December		Book Value of Ordinary Shares at 31 December		Contribution to Consolidated Profit/(Loss)	
				2012 %	2011 %	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Croft Exploration Limited	UK	Dormant	31 December	50	50	-	-	-	-
BC Petroleum Sdn Bhd	Malaysia	Development/ Appraisal	31 December	48	48	32,833	159	-	-

The Group has a 48% interest in BC Petroleum Sdn Bhd ('BCP'), which is involved in the oil and gas appraisal in Malaysia.

BCP is a private entity that is not listed on any public exchange.

The following table illustrates summarised financial information of the Group's investment in BCP:

	2012 US\$'000	2011 US\$'000
<b>Assets and liabilities</b>		
Current assets	115,438	12,513
Non-current assets	–	8,929
Current liabilities	(28,156)	(21,283)
Non-current liabilities	(54,449)	–
<b>Equity</b>	<b>32,833</b>	<b>159</b>
Share of the associate's revenue and profit:		
Revenue	–	–
<b>Profit</b>	<b>–</b>	<b>–</b>
Carrying amount of the investment:		
Equity	32,833	159
Loan to associate	589	15,840
	<b>33,422</b>	<b>15,999</b>

Cash contributions to BCP are initially made as a loan and subsequently converted to equity following shareholder approval. Cash contributions during the period were \$17.4 million.

	2012 US\$	2011 US\$
<b>Note 31. Remuneration of Auditors</b>		
<b>Amounts due to and recoverable by the auditor of the parent entity for:</b>		
Audit and review of the financial report	322,529	221,557
Tax compliance and accounting advice	290,518	267,134
	<b>613,047</b>	<b>488,691</b>
<b>Amounts due to related practices of Ernst &amp; Young, Australia for:</b>		
Audit and review of the financial report	43,009	74,033
Tax compliance and accounting advice	46,080	79,355
	<b>89,089</b>	<b>153,388</b>
	<b>702,136</b>	<b>642,079</b>

Ernst & Young, Australia was the auditor for the Company in 2012.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## Note 32. Key Management Personnel ('KMP') Disclosures

### (a) Details of KMP

Mr A J Love	Chairman (Non-Executive)
Mr W G Jephcott	Deputy Chairman (Non-Executive) (resigned 12 December 2012)
Mr S J Jansma, Jr	Director (Non-Executive) (resigned 17 May 2012)
Mr R C A Leon	Director (Non-Executive)
Mr G D Mulligan	Director (Non-Executive)
Mr C C Hodge	Director (Non-Executive)
Mr A S Linn	Chief Executive Officer and Executive Director (appointed 27 February 2012)
Mr R M Harding	Director (Non-Executive) (appointed 1 June 2012)
Mr N D R Hartley	Director (Non-Executive) (appointed 1 June 2012)
Mr R Morris	President, Roc Oil (China) Company
Mr R B Stork	Chief Operating Officer
Mr A Neilson	Chief Financial Officer
Ms L Nolan	General Counsel and Company Secretary
Dr P Eliet	General Manager – Exploration, Geoscience & Business Development (appointed 13 September 2012).

### (b) Remuneration

#### (i) Remuneration policy

The Remuneration and Nomination Committee is responsible for determining and reviewing the appropriate level and structure of remuneration of KMP. Executive remuneration is set at levels and structured to attract, motivate, reward and retain good performers to drive the business effectively. Further details of the Company's remuneration policy are set out in the Remuneration Report section of the Directors' Report.

The Company has an "at risk" Long Term Incentive ('LTI') plan and an "at risk" Short Term Incentive ('STI') plan. Under the LTI, executives are issued performance rights to subscribe for ordinary shares in the Company at the discretion of the Directors and can be awarded cash bonuses under the STI. These plans provide an incentive to KMP to achieve significant long term growth in the Company's share price. Previously, options were issued under the Employee and Executive Share Option Plans, which have now been discontinued. For details, refer to Note 24 and to the Remuneration Report section of the Directors' Report.

#### (ii) Remuneration of KMP

The aggregate of compensation of the KMP of the Group is set out below:

	2012 US\$	2011 US\$
Short term employee benefits	5,737,638	4,660,679
Post-employment benefits	135,298	139,188
Share-based payments	610,830	569,790
	<b>6,483,766</b>	<b>5,369,657</b>

Remuneration disclosures required by AASB 124 *Related Party Disclosures* paragraphs Aus 5.4 to Aus 25.7.2 are disclosed in the Remuneration Report section of the Directors' Report. These transferred disclosures have been audited.

**(c) Right/Option holdings**

	Year	1 January Balance at Beginning of Financial Year	Rights Granted as Remuneration	Rights/ Options Exercised	Rights/ Options Lapsed	31 December Balance at End of Financial Year	Vested at 31 Dec	Exercisable at 31 Dec
Mr A S Linn	2012	3,920,000	–	(48,000)	(72,000)	3,800,000	550,000	275,000
	2011	2,170,000	2,000,000	(100,000)	(150,000)	3,920,000	330,000	165,000
Mr R Morris	2012	1,240,000	–	(56,000)	(84,000)	1,100,000	200,000	200,000
	2011	840,000	400,000	–	–	1,240,000	200,000	200,000
Mr R B Stork	2012	600,000	–	–	–	600,000	–	–
	2011	–	600,000	–	–	600,000	–	–
Mr A Neilson	2012	1,540,000	–	(48,000)	(72,000)	1,420,000	370,000	185,000
	2011	890,000	650,000	–	–	1,540,000	302,000	151,000
Ms L Nolan	2012	1,300,000	–	(28,000)	(142,000)	1,130,000	80,000	80,000
	2011	650,000	650,000	–	–	1,300,000	172,000	116,000
Dr P Eliet	2012	–	500,000	–	–	500,000	–	–
	2011	–	–	–	–	–	–	–
<b>Total</b>	<b>2012</b>	<b>8,600,000</b>	<b>500,000</b>	<b>(180,000)</b>	<b>(370,000)</b>	<b>8,550,000</b>	<b>1,200,000</b>	<b>740,000</b>
Total	2011	4,550,000	4,300,000	(100,000)	(150,000)	8,600,000	1,004,000	632,000

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued

## Note 32. Key Management Personnel ('KMP') Disclosures (continued)

### (d) Shareholdings

	Year	1 January Balance at Beginning of Financial Year	Change on Exercise of Rights/Options	Net Change from On-Market Transactions	31 December Balance at End of Financial Year
Mr A J Love	2012	629,521	–	60,000	689,521
	2011	589,521	–	40,000	629,521
Mr W G Jephcott	2012	1,117,300	–	–	1,117,300 <sup>(1)</sup>
	2011	1,117,300	–	–	1,117,300
Mr S J Jansma, Jr	2012	3,000,000	–	3,000,000	6,000,000 <sup>(1)</sup>
	2011	2,000,000	–	1,000,000	3,000,000
Mr R C A Leon	2012	1,510,000	–	–	1,510,000
	2011	1,510,000	–	–	1,510,000
Mr G D Mulligan	2012	25,000	–	–	25,000
	2011	25,000	–	–	25,000
Mr C C Hodge	2012	50,000	–	50,000	100,000
	2011	50,000	–	–	50,000
Mr R M Harding	2012	–	–	–	–
	2011	–	–	–	–
Mr N D R Hartley	2012	12,500 <sup>(2)</sup>	–	–	12,500
	2011	–	–	–	–
Mr A S Linn	2012	100,000	48,000	–	148,000
	2011	–	100,000	–	100,000
Mr R Morris	2012	600,000	56,000	–	656,000
	2011	300,000	–	300,000	600,000
Mr R B Stork	2012	–	–	–	–
	2011	–	–	–	–
Mr A Neilson	2012	11,500	48,000	–	59,500
	2011	11,500	–	–	11,500
Ms L Nolan	2012	–	28,000	–	28,000
	2011	–	–	–	–
Dr P Eliet	2012	–	–	–	–
	2011	–	–	–	–
<b>Total</b>	<b>2012</b>	<b>7,055,821</b>	<b>180,000</b>	<b>3,110,000</b>	<b>10,345,821</b>
Total	2011	5,603,321	100,000	1,340,000	7,043,321

Note:

(1) As per the Director's Final Interest Notice.

(2) As per the Director's Initial Interest Notice.

All equity transactions with KMP other than those arising from the exercise of remuneration rights/options have been entered into under terms and conditions no more favourable than those the Company would have adopted if dealing at arm's length.

### (e) Loans and other transactions

No loans have been made to the KMP other than advances made for the purpose of meeting business expenses incurred in performing their duties. No interest is being charged on these amounts.

---

### **Note 33. Contingent Liabilities**

In accordance with normal oil and gas industry practice, the Group has entered into joint venture operations and farm-in agreements with other parties for the purpose of exploring and developing its licence interests. If a party to a joint venture operation defaults and does not contribute its share of joint venture operation obligations, then the other joint venturers are liable to meet those obligations. In this event, the interest in the licence held by the defaulting party may be redistributed to the remaining joint venturers.

### **Note 34. Subsequent Events**

No events have arisen since the end of the financial year that have significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity.

### **Note 35. Additional Company Information**

The Company is a public company listed in Australia on the ASX and incorporated in Australia and operates in Australia and overseas.

The registered office and principal place of business are:

Level 18, 321 Kent Street  
Sydney NSW 2000  
Australia.

Telephone number: +61 2 8023 2000

ABN: 32 075 965 856

ASX code: ROC

# DIRECTORS' DECLARATION

The Directors declare that:

- (a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
- (b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1(b);
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- (d) this declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 31 December 2012.

On behalf of the Directors:



**Mr A J Love**  
Chairman



**Mr A S Linn**  
Director and Chief Executive Officer

Sydney, 27 February 2013

# INDEPENDENT AUDITOR'S REPORT

To the Members of Roc Oil Company Limited



Ernst & Young Centre  
680 George Street  
Sydney NSW 2000 Australia  
GPO Box 2646 Sydney NSW 2001  
Tel: +61 2 9248 5555  
Fax: +61 2 9248 5959  
www.ey.com.au

## Report on the Financial Report

We have audited the accompanying financial report of Roc Oil Company Limited, which comprises the consolidated statement of financial position as at 31 December 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### *Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1(b), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Independence*

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Liability limited by a scheme approved under Professional Standards Legislation

# INDEPENDENT AUDITOR'S REPORT

Continued



## Opinion

In our opinion:

- (a) the financial report of Roc Oil Company Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- (b) the financial report also complies with International Financial Reporting Standards.

## Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 31 December 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

## Opinion

In our opinion the Remuneration Report of Roc Oil Company Limited for the year ended 31 December 2012, complies with section 300A of the *Corporations Act 2001*.

A handwritten signature in cursive script that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in cursive script that reads 'Trent van Veen'.

Trent van Veen  
Partner

Sydney, 27 February 2013

# ADDITIONAL INFORMATION

## ROC RESERVES AND RESOURCES ANALYSIS (UNAUDITED) AS AT 31 DECEMBER 2012

<b>Summary Proved and Probable Working Interest Reserves</b>	<b>2P MMBOE<sup>(1)</sup></b>
Opening balance	15.1
Reserve disposed	(0.1)
Reserve revisions	2.4
Production	(2.4)
<b>Closing balance</b>	<b>15.0</b>

<b>Analysis of Proved and Probable Working Interest Reserves</b>	<b>2P BCF</b>	<b>2P MMBBL</b>	<b>2P Total MMBOE<sup>(1)</sup></b>
Zhao Dong	1.5	5.3	5.6
Beibu	–	5.4	5.4
Cliff Head	–	2.5	2.5
Blane	0.1	1.2	1.2
Enoch	–	0.3	0.3
<b>Closing balance</b>	<b>1.6</b>	<b>14.7</b>	<b>15.0</b>

<b>Analysis of Working Interest Reserves and Resources by Region</b>	<b>2P MMBOE<sup>(1)</sup></b>	<b>2C MMBOE</b>	<b>Best Estimate of Risked Prospective Resources<sup>(2)</sup> BOE</b>
China	11.1	5.9	35.3
Australia	2.5	13.2	5.2
UK	1.4	3.8	–
Africa	–	–	3.1
<b>Closing balance</b>	<b>15.0</b>	<b>22.9</b>	<b>43.6</b>

(1) 2P Reserves contain approximately 9% which is given to host governments. This is subject to oil price and costs.

(2) The estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation are required to determine the existence of a significant quantity of potentially moveable hydrocarbons.

The Reserves Statement has been compiled by Mr Bill Billingsley, ROC's Chief Reservoir Engineer, who is a full-time employee of the Company. Mr Billingsley's qualifications include a Master of Science (Petroleum Engineering) from Imperial College, London, England and more than 17 years of relevant experience. Mr Billingsley has consented to the inclusion of this information in this report.



# ADDITIONAL INFORMATION

Continued

## ROC LICENCES AT 31 DECEMBER 2012 (UNAUDITED)

Country	Block	Field/Discovery	ROC Interest %	Operator
Australia	WA-31-L	Cliff Head	42.50	Roc Oil (WA) Pty Limited
	L14	Jingemia	0.25	Origin Energy Developments Pty Ltd
	VIC/L26, VIC/L27, VIC/L28	BMG	37.50 <sup>(1)</sup>	Roc Oil (VIC) Pty Limited
Equatorial Guinea	Block H		20.00	Roc Oil (Equatorial Guinea) Company (Admin Manager)/ White Rose Energy Ventures (EG) Limited (Technical Manager)
Mozambique Channel	Juan de Nova Maritime Profond (France)		75.00 <sup>(2)</sup>	South Atlantic Petroleum JDN SAS <sup>(5)</sup>
China	Beibu Gulf Development Areas	WZ 6-12, WZ 12-8	40.00/19.60 <sup>(3)</sup>	Roc Oil (China) Company/ CNOOC Limited
	Zhao Dong Block	C and D Fields, C4 Field	24.50/11.58 <sup>(4)</sup>	Roc Oil (Bohai) Company
	Chenghai and Zhanghai Blocks	H1	80.00/39.20 <sup>(3)</sup>	Roc Oil (Bohai) Company
	Block 09/05		100.00	Roc Oil (Bohai) Company
UK North Sea	P111 (Block 30/3a Upper)	Blane	15.24/12.50 <sup>(4)</sup>	Talisman Energy (UK) Limited
	P219 (Block 16/13a and 16/13e)	Enoch, J1	15.00/12.00 <sup>(4)</sup>	Talisman North Sea Limited

**Note:**

- (1) The withdrawal of CIECO Exploration and Production (Australia) Pty Ltd from the BMG Joint Venture, effective 31 December 2012, is being finalised amongst the joint venture parties and will result in a pro rata distribution amongst the remaining BMG Joint Venture parties. Subject to regulatory approval, ROC will hold 37.5% interest in the BMG Joint Venture.
- (2) Sale to South Atlantic Petroleum JDN SAS effective 1 July 2011 subject to final government authorisation.
- (3) Interest in field development post-government back-in.
- (4) Unitised interest in producing fields.
- (5) ROC is operator and South Atlantic Petroleum JDN SAS is Technical Manager.

# SHAREHOLDER INFORMATION

## 1. Ordinary Share Capital

As at 4 March 2013, the Company had on issue 683,235,552 fully paid ordinary shares held by 17,784 shareholders.

All issued fully paid ordinary shares carry one vote per share.

## 2. Options

As at 4 March 2013, the Company had the following unquoted options: 1,878,000 options under the Employee Share Option Plan held by 55 optionholders and 1,500,000 options under the Executive Share Option Plan held by 17 optionholders.

During the year ended 31 December 2012:

- 792,000 employee share options and 2,626,000 executive share options were forfeited or lapsed; and
- nil options issued under the Employee Share Option Plan and nil options issued under the Executive Option Scheme were exercised.

Options do not carry any voting rights or rights to dividends.

## 3. Performance Rights

As at 4 March 2013, the Company had granted 11,219,000 performance rights under the Long Term Incentive Plan to 46 employees. Performance Rights do not carry any voting rights or rights to dividends.

## 4. Distribution of Share and Option Holders

Holding of Shares or Options as at 4 March 2013	Shareholders	Employee Optionholders	Executive Optionholders
1–1,000	5,410	–	–
1,001–5,000	5,796	23	–
5,001–10,000	2,656	1	–
10,001–100,000	3,659	26	14
Over 100,000	263	5	3
<b>Total</b>	<b>17,784</b>	<b>55</b>	<b>17</b>
Shareholders holding less than a marketable parcel	968		

## 5. Substantial Shareholders

Substantial shareholders as disclosed in substantial shareholder notices given to the Company are as follows:

Shareholder	Number Held (Fully Paid Ordinary Shares)	% of Class Held
N/A	N/A	N/A

# SHAREHOLDER INFORMATION

Continued

## 6. Twenty Largest Shareholders as at 4 March 2013

Shareholder	Number Held	%	Rank
JP Morgan Nominees Australia Limited	141,573,233	20.72	1
HSBC Custody Nominees (Australia) Limited	102,665,140	15.03	2
National Nominees Limited	101,064,448	14.79	3
Citicorp Nominees Pty Limited	64,640,277	9.46	4
JP Morgan Nominees Australia Limited	26,643,944	3.90	5
ANZ Underwriting Limited	24,830,763	3.63	6
HSBC Custody Nominees (Australia) Limited	4,620,211	0.68	7
Mr Timothy Bryce Kleemann	2,583,000	0.38	8
Citicorp Nominees Pty Limited	1,624,438	0.24	9
UOB Kay Hian Private Limited	1,606,371	0.24	10
Mr Barnaby Colman Caddick	1,600,000	0.23	11
Investsoft SA	1,600,000	0.23	12
Mr Jose Manuel Do Rego Medeiros	1,500,000	0.22	13
Forty Traders Limited	1,187,126	0.17	14
Berne No 132 Nominees Pty Ltd	1,000,000	0.15	15
Kavel Pty Ltd	952,000	0.14	16
R & F Tassone Pty Ltd	922,008	0.13	17
Mr Steven Joseph Koroknay	900,000	0.13	18
HSBC Custody Nominees (Australia) Limited – A/C 2	893,684	0.13	19
Merrill Lynch (Australia) Nominees Pty Limited	893,317	0.13	20
	<b>483,299,960</b>	<b>70.74</b>	

# GLOSSARY AND DEFINITIONS

API	The American Petroleum Institute unit of measurement that denotes how heavy or light (the gravity) a petroleum liquid is compared to water - the lower the API number the heavier the oil.
ASIC	Australian Securities and Investments Commission.
ASX	Australian Securities Exchange.
AUD/A\$ or cents	Australian currency.
BBL(s)	Barrel(s), an oil barrel is equivalent to 0.159 cubic metres.
BCF	One billion cubic feet of natural gas.
BCP	BC Petroleum Sdn Bhd.
BMG	Basker-Manta-Gummy.
BOE	Barrel of oil equivalent. The factor used to convert gas to oil equivalent is based upon an approximate energy value of 6,000 cubic feet per barrel and not price equivalence at the time.
BOEPD	Barrel of oil equivalent per day.
BOPD	Barrel of oil per day inclusive of NGLs.
E & D	Exploration and Development.
FPSO	Floating production storage offtake (vessel).
Group	Parent entity and its subsidiaries.
GST	Goods and services tax.
IFRS	International Financial Reporting Standards.
KMP	Key Management Personnel.
LTI	Long Term Incentive.
MMBBL	One million barrels of oil.
MMBOE	One million barrels of oil equivalent.
MMSCFD	One million standard cubic feet of natural gas per day.
NGL	Natural gas liquid.
NPP	Non-Production Phase.
probable reserves	Probable reserves are less certain than proved reserves and can be estimated with a degree of certainty sufficient to indicate they are more likely to be recovered than not. Note that probable reserves have not been risked.
proved reserves	Proved reserves can be estimated with reasonable certainty to be recoverable under current economic conditions. Current economic conditions include prices and costs prevailing at the time of the estimate. Proved reserves may be developed or undeveloped.
PRRT	Petroleum Resource Rent Tax.
PSC	Production Sharing Contract.
ROC	Roc Oil Company Limited.
STI	Short Term Incentive.
SPE	Society of Petroleum Engineers.
UK	United Kingdom.
USD/US\$ or cents	United States currency.
2C	Proved and probable contingent resources.
2P	Proved and probable reserves.
3D	Three dimensional.
3P	Proved plus probable plus possible reserves.

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# DIRECTORY

## BOARD OF DIRECTORS

**Mr Andrew J Love**  
Chairman

**Mr Alan S Linn**  
Executive Director

**Mr Robert C A Leon**  
Director

**Mr Graham D Mulligan**  
Director

**Mr Christopher C Hodge**  
Director

**Mr R Michael Harding**  
Director

**Mr Nigel D R Hartley**  
Director

## COMPANY SECRETARY

**Ms Leanne Nolan**

## ASSISTANT COMPANY SECRETARY

**Ms Jacquie Shanahan**

## SHARE REGISTRAR

Computershare Investor  
Services Pty Limited  
Level 3, 60 Carrington Street  
Sydney NSW 2000  
Australia

## AUDITOR

Ernst & Young  
Ernst & Young Centre  
680 George Street  
Sydney NSW 2000  
Australia

## STOCK EXCHANGE

ASX Limited  
20 Bridge Street  
Sydney NSW 2000  
Australia  
ASX code: ROC

## REGISTERED OFFICE

**Sydney**  
**(Office address)**  
Level 18, 321 Kent Street  
Sydney NSW 2000  
Australia  
Tel: +61 2 8023 2000  
Fax: +61 2 8023 2222

## (Postal address)

Roc Oil Company Limited  
PO Box Q1496  
Queen Victoria Building NSW 1230  
Australia

## REGIONAL OFFICES

### AUSTRALIA

**Perth**  
Roc Oil (WA) Pty Limited  
Level 2, 201 Adelaide Terrace  
East Perth WA 6004  
Australia

### CHINA

**Beijing**  
Roc Oil (Bohai) Company  
Level 18, Hyundai Motor Tower  
38 Xiaoyun Road  
Chaoyang District  
Beijing 100027  
PR China

### MALAYSIA

**Kuala Lumpur**  
Roc Oil Malaysia (Holdings) Sdn Bhd  
Level 16, West Block  
Wisma Selangor Dredging (Letter Box #8)  
142C Jalan Ampang  
50450 Kuala Lumpur  
Malaysia

## WEBSITE

[www.rocoil.com.au](http://www.rocoil.com.au)



**rocoil.com.au**





# SUSTAINABILITY REPORT 2012



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# 1 ABOUT THIS REPORT

This report highlights ROC's commitment to sustainable business practices and identifies how we work with stakeholders in progressing towards fulfilment of our strategic objectives.

## 1.1 REPORT BOUNDARIES AND FRAMEWORK

This report encompasses ROC's global operations and contains details of sustainable performance measures for the 12-month period ended 31 December 2012. Sustainable performance data is gathered and collated within each ROC-operated asset.

The report takes into account best practice guidelines, including the Global Reporting Initiative, the International Petroleum Industry Environmental Conservation Association and the American Petroleum Institute (API) guidelines. ROC's Sustainable Practices Framework aims to align these guidelines with our overall business strategy and objectives.

## 1.2 WHY REPORT

In ROC's fourth sustainability report, we disclose ROC's performance in each of the following areas:

- > ROC's commitment to ensuring the safety and wellbeing of our employees;
- > maintaining the highest standard of asset integrity;
- > minimising impact on the environment; and

- > contributing to the social, environmental and economic development of the communities in which we operate.

This report provides stakeholders with details of our 2012 performance and addresses how ROC integrates sustainability concepts and best practices when managing business risks and pursuing value growth opportunities.

## 1.3 MATERIALITY

ROC considers an issue to be material if it impacts our ability to deliver business objectives or threatens reputation. ROC uses an Enterprise Risk Management Framework to assess business risks and ensure alignments with our core cultural values of openness and transparency.

Data is gathered through engagement with communities, employees, partners, contractors, monitoring media, third party risk analysis and issues reported by the industry, peers and partners.

Details of our Enterprise Risk Management Framework are outlined in section 5 of this report.

# 2 A MESSAGE FROM THE CEO

Following the re-formulation of ROC's strategic priorities and direction in 2010, the Company has evolved considerably. In 2012, we delivered against a series of key outcomes, building upon our overall goal to increase long term shareholder value.

ROC's economic fundamentals are sound, enabling the expansion of the business through existing growth projects and new opportunities. At ROC, we recognise our ability to sustain value growth is dependent on the Company's ability to operate in a socially and environmentally responsible manner.

Guiding this sense of responsibility is ROC's Sustainable Practices Framework. The framework provides a consistent approach in managing our responsibilities; a template of consistent communication to our stakeholders; and a methodology for tracking annual progress.

An important foundation for ROC – which I believe is part of ROC's DNA – is our dedication to Health, Safety and Environment (HSE) practices, and these are encapsulated in our HSE Vision and Guiding Principles. With our strong HSE track record, ROC is in a position to grow shareholder value. Our track record also provides our 'licence to operate' in the core operating regions of Australia, South East Asia and China.

ROC's HSE Vision and Guiding Principles have been integrated into the strategic decision making processes within the business and support our commitment to the following key goals:

- > zero harm to our employees, contractors and the communities in which we operate;
- > conduct business in a way which minimises the risks to the environment;
- > integrate HSE into all business activities; and
- > demonstrate industry leadership in HSE performance.

Complementing ROC's dedication to HSE is our Asset Integrity Management (AIM) programme. All ROC operations and projects develop and fully implement full lifecycle asset integrity controls. Monitoring of performance is confirmed with regular audits.

Asset Integrity Management provides ROC with multiple benefits. The likelihood of major safety and environmental incidents is minimised. Our employees and neighbours remain safe and the life and up-time of our equipment is extended. The efforts deliver economic benefits through steady, reliable production and lower operating costs; important components as we work to extract maximum value from technically challenging fields. This approach helps ROC maintain a competitive advantage over peers; as a partner of choice for joint venture partners, national oil companies and governments.

I believe ROC is now moving into an exciting operational period with significant growth potential. The company must ensure that growth is sustainable, from an economic, social and environmental perspective. Continuing responsiveness to developing business trends such as rising input costs and increasing sensitivity in relation to environmental footprint, is essential if we are to maintain our competitive advantage.

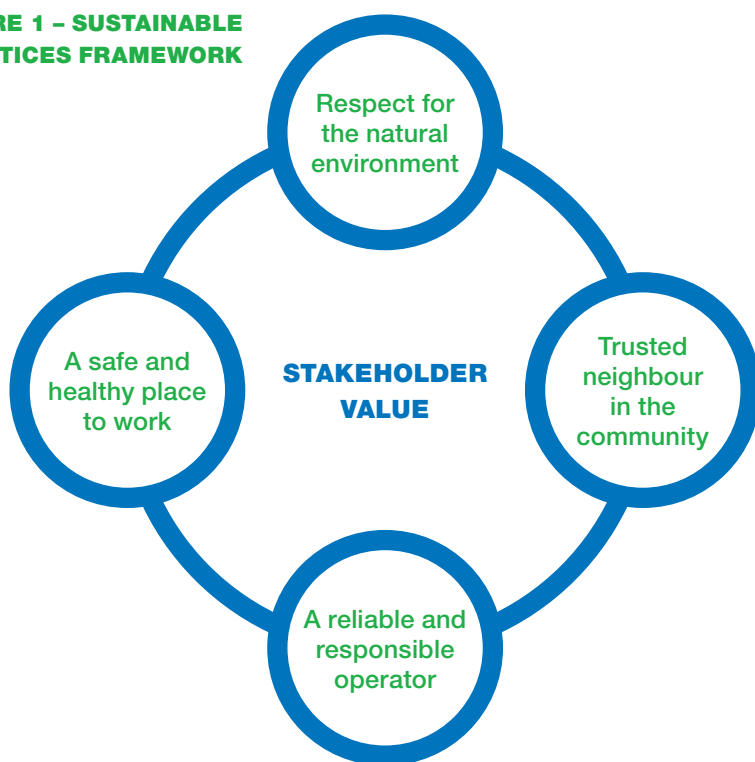
I trust that this report clearly outlines our efforts towards sustainable practices as ROC seeks to deliver value growth for all of our stakeholders.




**Alan Linn**  
CEO and Executive Director



**FIGURE 1 – SUSTAINABLE PRACTICES FRAMEWORK**

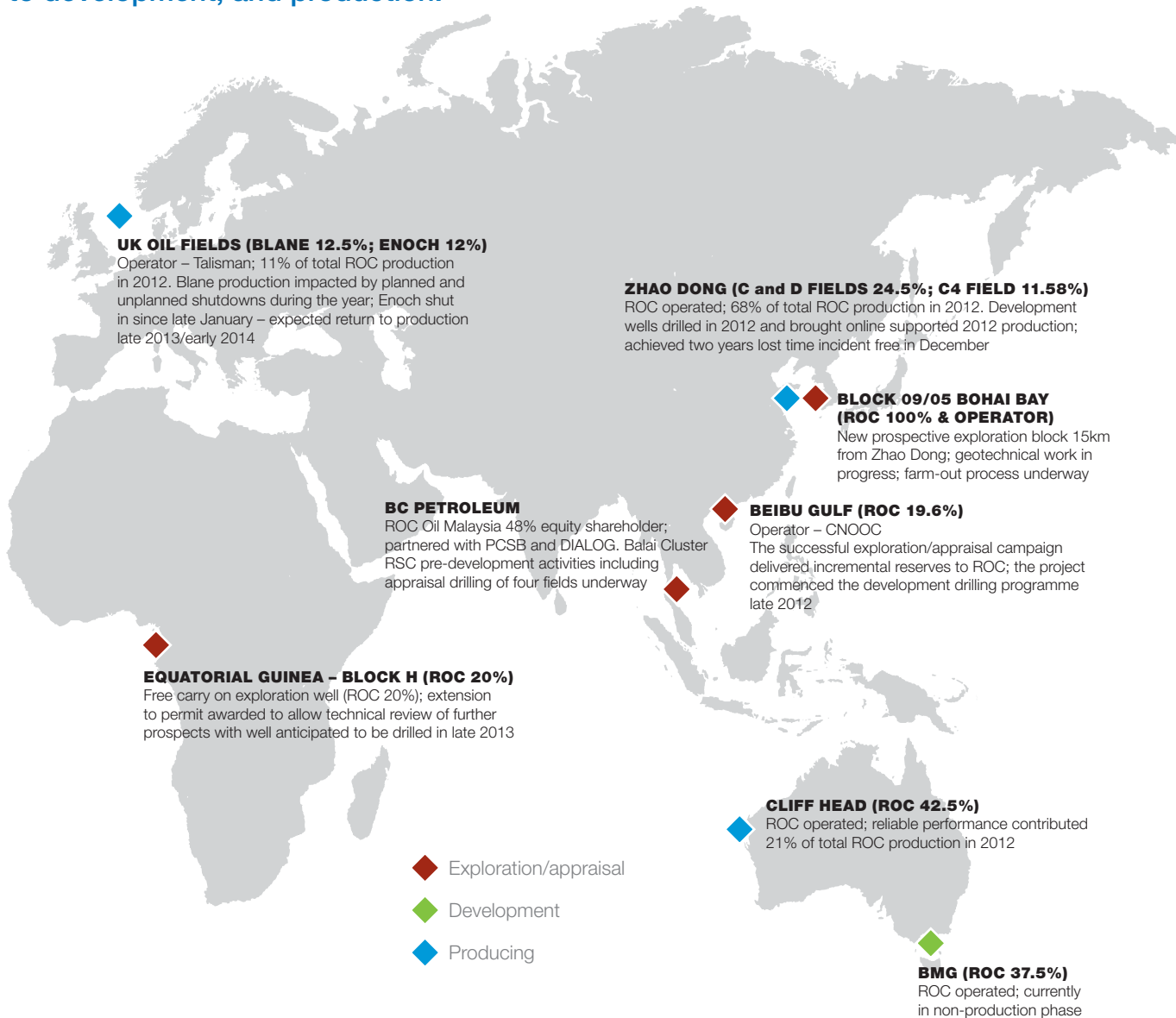


A photograph of two workers on an offshore oil platform. The worker on the left is wearing a dark blue jacket and a white hard hat. The worker on the right is wearing a high-visibility orange jacket with reflective stripes, dark pants, and a white hard hat. They are standing on a metal platform with yellow railings, looking at each other. The background shows a vast blue ocean under a clear sky. The text is overlaid in green on the upper left portion of the image.

‘With our strong HSE track record, ROC is in a position to grow shareholder value. Our track record also provides our ‘licence to operate’ in the core operating regions of Australia, China and South East Asia.’

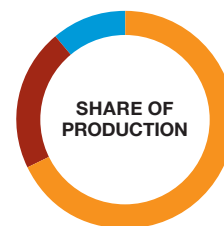
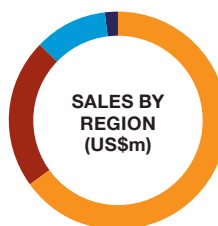
# 3 COMPANY PROFILE

ROC is an Australian mid-cap independent upstream oil and gas company with an operational presence in China, South East Asia and Australia. The Company operates across the full range of upstream business activities, from exploration and appraisal to development, and production.



ROC's core production assets performed reliably throughout the year delivering full year production in-line with 2012 guidance, ensuring good cashflow from operations and underpinning the capacity of the business to fund growth projects. The reliable performance was attributable to the HSE and asset integrity management practices in place together and the strong and dedicated teams working across the regions of our business.

**TOTAL SALES  
US\$242 MILLION;  
NET PROFIT  
AFTER TAX  
US\$61 MILLION**



# 4 PERFORMANCE SUMMARY

	2012	2011	2010	2009	2008
<b>ECONOMIC</b>					
Total gross operated production (MMBOE)	8.2	9	9.2	10	11
Total working interest production (MMBOE)	2.4	2.7	2.7	3.7	4.0
Oil sales from working interest (MMBOE)	2.1	1.9	2.3	3.6	3.9
Sales revenue (US\$m)	240.8	285.8	235.4	204.5	358.2
Operating cash flow (US\$m)	126.3	43.4	58.4	91.4	182.5
Net profit/(loss) after tax (US\$m)	61.0	27.7	(35.9)	(115.4)	(278.4)
Total income taxes, royalties and levies (US\$m)	47	97	46	47	40
Royalties to government (% of production)	9.6%	7.0%	7.0%	5.0%	5.0%
Market capitalisation (A\$m; at 31 December)	300.6	171.0	292.4	427.9	205.8
<b>PEOPLE</b>					
Total number of employees <sup>1</sup>	186	185	182	160	222
Female	69	67	68	54	71
Male	117	118	114	106	151
Total turnover rate	21%	11%	8%	20%	9%
<b>HEALTH AND SAFETY</b>					
Total man-hours <sup>2</sup>	1,699,790	1,710,062	2,022,000	2,549,973	4,771,213
Medical treatment cases	2	1	6	2	7
First aid cases	14	14	30	47	40
Lost Time Injuries	1	0	3	1	4
Lost Time Injury Frequency Rate ('LTIFR') <sup>3</sup>	0.59	0	1.50	0.39	0.84
Restricted work cases	2	1	2	0	1
Fatalities	0	0	0	0	0
Total Recordable Injury Frequency Rate ('TRIFR')	2.94	1.20	5.40	1.18	2.51
<b>COMMUNITY</b>					
Voluntary social investment (US\$)	133,939	111,545	290,111	219,116	580,274
<b>ENVIRONMENT</b>					
<b>GHG emissions (tCO<sub>2</sub>-e)</b>					
China	92,057	108,678	15,6796	NR	NR
Australia	17,041	20,538	78,543	NR	NR
Total GHG emissions (tCO <sub>2</sub> -e)	109,098	129,216	235,339	363,370	234,197
<b>Intensity of hydrocarbon production (tCO<sub>2</sub>-e/t)</b>	<b>0.08</b>	<b>0.10</b>	<b>0.20</b>	<b>0.24</b>	<b>0.15</b>
<b>Significant loss of containment incidents</b>					
Oil spills	0	0	2	0	0
Gas releases	0	0	2	0	0
All other significant environmental incidents	0	0	0	0	0
<b>Flared gas</b>					
Total flared gas (t)	7,365	17,455	57,025	52,741	50,511
Intensity (t of flared gas per t of hydrocarbon production)	0.006	0.01	0.05	0.03	0.03
<b>Waste management</b>					
Total hazardous waste <sup>4</sup> (t)	51	34	60	52	133
Total non-hazardous waste (t)	1,592	2,931	3,751	5,061	2,235
<b>Energy consumption<sup>5</sup></b>					
Total energy consumption (Tj)	2,034	2,535	4,162	4,171	3,514
Intensity (Tj) of energy consumption per kt hydrocarbon production	1.56	1.92	3.57	3.00	2.00
<b>Water usage</b>					
Fresh water use (m <sup>3</sup> )	27,231	31,558	45,102	45,056	46,044
<b>Fines</b>					
Total number of fines and penalties	1	0	0	1	0

NR = not reported

The previously disclosed metric of 'Controlled discharges to water' has been excluded from the performance summary as all produced water at Zhao Dong and Cliff Head is treated and reinjected back into the reservoir that it was initially extracted from.

1. Total number of employees includes both full and part-time employees as at 31 December 2012.
2. Total man-hours includes both the employees and contractors.
3. Frequency rates are determined as the number of injuries per million hours worked.
4. Per IPIECA/API Guidelines (2010), hazardous waste includes all wastes that is defined as hazardous, toxic, dangerous, listed, priority, special or some other similar term as defined by an appropriate country, regulatory agency or authority.
5. 2012 energy consumption and intensity numbers also includes energy usage in Sydney, Beijing and Kuala Lumpur offices.



# 5 A FRAMEWORK FOR INTEGRITY

Contributing to ROC's competitive position is our proactive capacity to identify threats and opportunities from an economic, environmental or social perspective.

ROC has an established Enterprise Risk Management Framework to identify key risks, with appropriate controls and actions. The risks are reviewed on an annual basis for all operations. ROC has a HSE Committee and an Audit and Risk Committee which meet regularly to review risk status and ensure the risk potential is being effectively managed.



## **DURING 2012, OUR RISK ASSESSMENT FRAMEWORK IDENTIFIED MATERIAL ISSUES RELATING TO SUSTAINABILITY WHICH HAVE BEEN ADDRESSED**

### **Maintaining high standards of health, safety and environmental management and reporting**

ROC is committed to conducting its business in a manner which prevents injury or illness to employees, contractors and the community. ROC closely monitors critical safety controls. During 2012, ROC reviewed and updated its Emergency Response Plans and the Corporate Crisis Management Plan. Regular training and exercises are conducted to ensure staff are prepared in the event of a major incident.

As an international oil and gas company, ROC operates within a range of different environments. Success depends on our ability to understand risk potential and work to control impacts. ROC conducts Environmental Impact Assessments on all operated assets and has active environmental management plans for all operations. ROC had no significant oil spills in 2012. (see section 6.1)

In 2013, ROC is developing a 'line of sight' monitoring tool based on industry best practice to monitor the health of the barriers designed to prevent and control major accident events.

### **Ensuring business practices and codes of conduct remain ethical and comply with local and international laws**

In early 2012, the ROC Board approved an updated suite of corporate governance charters and policies. This review also encompassed updating the policies, practices and procedures in relation to preventing bribery and corruption and the giving and receiving of gifts and entertainment.

A ROC Personal and Business Conduct Handbook was introduced and provides a clear guide on acceptable practices and expectations in relation to the conduct of Directors, employees and all who conduct business with ROC, together with the Company's whistle blowing policy. (see section 5.3)

### **Business development and reserves replacement**

ROC achieved a 100% reserve replacement during 2012 attributable to successful exploration drilling in Beibu Gulf and enhancements from existing producing assets. During 2012, ROC reviewed its business development function, progressing further in the regional approach. The function is led by Dr Pierre Eliet who is based in Kuala Lumpur. ROC will continue to pursue new opportunities aligned with its strategic objectives in Australia, South East Asia and China region.

ROC is an international operator in Australia, South East Asia and China, and works closely with partners and communities to ensure projects deliver value for all stakeholders. During 2012, ROC worked with partners to progress the Beibu Gulf development project, now nearing completion, and the appraisal of the Balai Cluster project (Malaysia).

### **Workforce composition, culture and commitment**

ROC recognises that to remain competitive, attracting, developing and retaining staff is a key to success. ROC reviewed its remuneration practices during 2012. ROC values the cultural diversity that exists with the present organisation across China, South East Asia and Australia. Our core values establish a framework for ROC which is designed to promote both cultural and gender diversity across the Group. (see section 6.2)

### **Community engagement**

ROC engages openly with communities and has implemented programmes aimed at supporting local communities. ROC seeks to engage with community groups including local councils at all stages of the development of its projects. (see section 5.1 and 6.3)

## 5.1 STAKEHOLDER ENGAGEMENT

ROC's long term success depends on its ability to build productive relationships and work collaboratively and transparently with our stakeholders. Core stakeholder groups are summarised below:

STAKEHOLDER GROUPS	SPECIFIC GROUPS	ENGAGEMENT METHODS	KEY SUSTAINABILITY INDICATORS
<b>Employees and contractors</b>	<ul style="list-style-type: none"> <li>&gt; Current and potential employees and contractors</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Sponsorship of annual university awards</li> <li>&gt; Induction training</li> <li>&gt; Clear rules of engagement for contractors e.g. contract HSE requirements</li> <li>&gt; Intranet and external website</li> </ul>	<ul style="list-style-type: none"> <li>&gt; A healthy and safe workplace</li> <li>&gt; Workforce remuneration and benefits</li> <li>&gt; Workforce composition, culture and commitment</li> <li>&gt; Governance and policy</li> </ul>
<b>Investment community</b>	<ul style="list-style-type: none"> <li>&gt; Retail and institutional investors</li> <li>&gt; Stockbrokers</li> <li>&gt; Financial media</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Periodic reporting and announcements</li> <li>&gt; Investor events (e.g. AGM; investor roadshows)</li> <li>&gt; Direct contact details for investor relations and media publicly available on website</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Financial and non-financial performance</li> <li>&gt; New project development and reserve replacement</li> <li>&gt; Transparency and disclosure</li> <li>&gt; Value creation and distribution</li> </ul>
<b>Business partners</b>	<ul style="list-style-type: none"> <li>&gt; Joint venture (JV) partners</li> <li>&gt; National oil companies</li> <li>&gt; Service providers</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Joint committee approach for JVs</li> <li>&gt; Project joint operating agreements</li> <li>&gt; Co-operate with regular audits</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Project delivery</li> <li>&gt; Risk management</li> <li>&gt; Financial performance</li> </ul>
<b>Government, non-government organisations and industry groups</b>	<ul style="list-style-type: none"> <li>&gt; Government organisations; Industry regulatory bodies</li> <li>&gt; Industry media</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Membership of business councils in China and Malaysia</li> <li>&gt; Co-operate with regular audits</li> <li>&gt; Face-to-face meetings</li> <li>&gt; External website</li> <li>&gt; Active engagement</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Adherence to government policy</li> <li>&gt; Regulatory and social licences to operate</li> <li>&gt; Corporate social responsibility</li> </ul>
<b>Communities</b>	<ul style="list-style-type: none"> <li>&gt; Local councils</li> <li>&gt; Community groups</li> <li>&gt; Charities</li> <li>&gt; Individuals</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Community engagement</li> <li>&gt; Sponsorships and educational initiatives</li> <li>&gt; Senior management visits to communities where we operate</li> <li>&gt; External website</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Social impacts and community wellbeing</li> <li>&gt; External stakeholder engagement</li> <li>&gt; Environmental impacts</li> </ul>

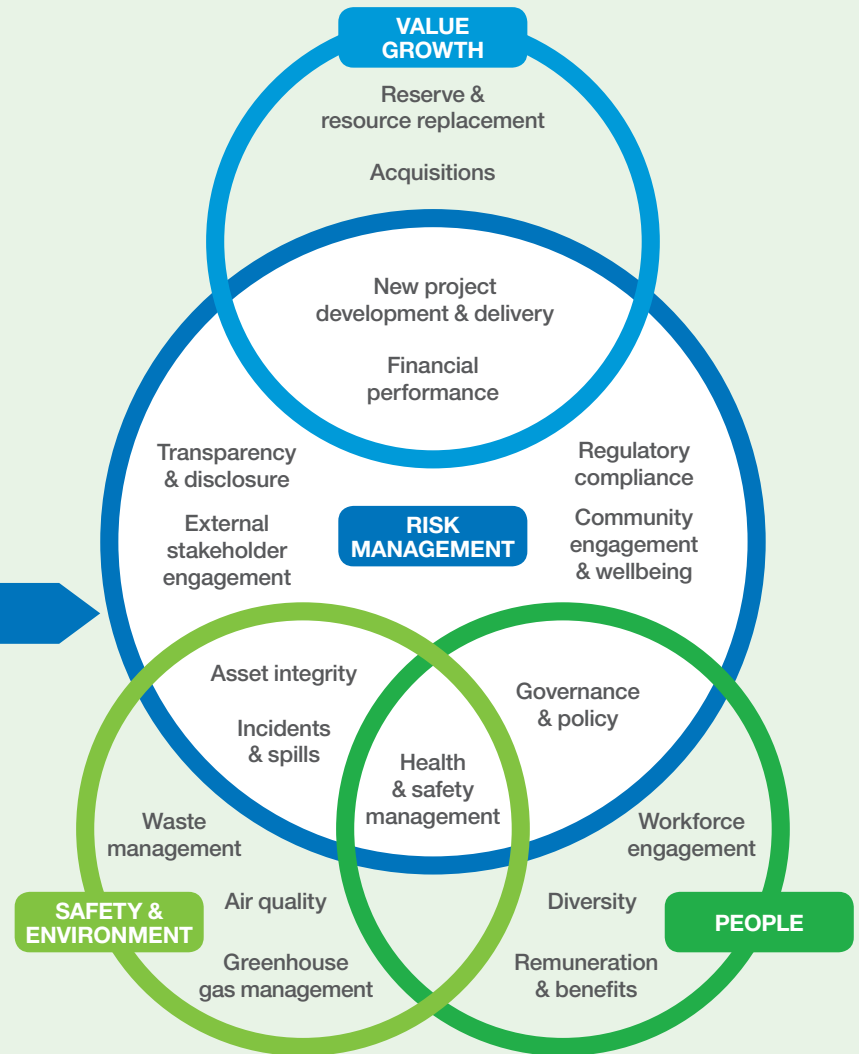


## 5.2 SUSTAINABILITY OPPORTUNITIES AND RISKS

The Enterprise Risk Management Framework for business sustainability enables ROC to identify, manage and assess risks effectively throughout our business. Embedding the framework into the business is helping to drive a culture of accountability. As part of our commitment to identifying and reducing risk, both Corporate Strategic and Departmental Risk Assessments are undertaken regularly. As ROC's business has grown in South East Asia and China, separate divisional risk profiles have been established to monitor the risks particular to the growth areas.

**ROC'S 'LICENCE TO OPERATE'**

The key sustainability indicators outlining risks and opportunities across ROC's business include:



## 5.3 GOVERNANCE

In early 2012, the Board approved an updated suite of corporate governance charters and policies. Following the review, policies, practices and procedures relating to the prevention of bribery and corruption and the giving and receiving of gifts and entertainment were updated and shared with the business.

All of the policies relevant to personal and business conduct were incorporated into a ROC Personal and Business Conduct Handbook ('Handbook'). The Handbook is published in English and Mandarin and distributed to all employees engaged by the Company.

The Handbook includes clear guidance on acceptable practices and expectations in relation to the conduct of Directors, employees and all who conduct business with ROC. A Conduct Helpline was established to facilitate the confidential raising of concerns.

As part of the rollout of the Handbook, training sessions were held in ROC offices in Beijing, Kuala Lumpur and Sydney. The training sessions focused on the conduct

expectations and policies set out in the Handbook and separate sessions were held on the anti-bribery and corruption policy and practices and procedures in relation to the giving and receiving of gifts and entertainment.

Regular monitoring of compliance with the Handbook is undertaken and on an annual basis all employees are asked to confirm their understanding and compliance with the Handbook and its contents.

### 5.3.1 HSE VISION AND GUIDING PRINCIPLES

Our HSE Vision and Guiding Principles have been integrated into all ROC operations and guide our commitment to the following goals:

- > zero harm to our employees, contractors and the communities in which we operate;
- > conduct our business in a way that minimises the risks to the environment;
- > integrate HSE into all of our business activities; and
- > demonstrate industry leadership in HSE performance.

ROC plans to review its current HSE governance arrangements against best practice and implement any identified improvements during 2013.

### 5.3.2 A LEADERSHIP PRIORITY

The Board has overall accountability for sustainability issues and monitors status through the HSE Committee and the Audit and Risk Committee:

- > the HSE Committee is a subcommittee of the Board, with overall responsibility for issues relating to HSE and community across all operational regions. The Committee meets at least twice a year to discuss the progress and status of ROC's sustainability activities including compliance with all relevant HSE legislation; and
- > the Audit and Risk Committee is responsible for monitoring management's progress in addressing ROC's business financial and non-financial risks, which include the sustainability risks identified through the Enterprise Risk Management Framework.

# 6 OUR PERFORMANCE

ROC is pleased to report that the majority of our 2012 sustainability targets were achieved.



## 6.1 RESPECTING THE ENVIRONMENT

As an international upstream oil and gas company, ROC's activities have the potential to impact the environment. Reliable environmental performance and a process of continuous improvement within our operations is essential for our business and operating reputation.

	2012 GOALS	OUTCOMES
<b>Environment</b>	<ul style="list-style-type: none"> <li>&gt; Improve environmental reporting processes</li> <li>&gt; Progress Zhao Dong water treatment project</li> <li>&gt; Reduce hydrocarbon loss of containment incidents by 50%</li> <li>&gt; Improve waste and recycling practices</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Detailed processes and procedures set up for Greenhouse Gas and Energy Reporting in Australia</li> <li>&gt; Zhao Dong water treatment project completed</li> <li>&gt; Recycling scheme established in Sydney office</li> <li>&gt; No significant oil spills during 2012</li> </ul>
	<b>FUTURE FOCUS</b>	
	<ul style="list-style-type: none"> <li>&gt; Maintain focus on oil spill prevention</li> </ul>	

Environmental management is a key aspect of the ROC HSE Management System and all ROC operations are expected to fully comply with regional environmental regulations. Environmental risk assessment tools such as Environmental Hazard Identification process and Environmental Impact Assessments ('EIA') are used to assess the potential for any impact on the environment within our operations. An important component of this process is engagement with stakeholders and understanding the potential local impact of ROC operations.

ROC's management of environmental impacts and understanding the needs of stakeholders continues throughout field life. In 2012, ROC removed sub-sea equipment and buried flowlines in the sea bed at the BMG field to permit fishermen greater access to fishing grounds in the vicinity of the field.

### 6.1.1 LOSS OF CONTAINMENT

ROC's ability to effectively manage loss of containment is driven by our Asset Integrity Management process. ROC manages the risk of oil spills from pipelines and facilities by performing regular equipment inspections and preventative maintenance designed to identify and mitigate the risk of loss of containment. During 2013, corporate audits will take place at all ROC-operated assets. These will include an AIMS and Process Safety Audit at Zhao Dong, an HSE expectation compliance audit at Cliff Head and an HSE regulatory compliance audit at BMG.

Environmental Management Plans are established for all operations to monitor the surrounding environment and implement preventive controls to reduce environmental impact.  
ROC had no significant oil spills during 2012.

Although the number of hydrocarbon loss of containment events increased during 2012 compared to 2011, the total volume of liquid hydrocarbon released were significantly reduced. The majority of the leaks were minor and occurred at the oil export tanker loading operations at Arrowsmith Plant. Measures have been taken to minimise the potential for these incidents to occur again. No fires and two minor ignition source events occurred during the year, neither of which was process related. This represents a 71% reduction compared to 2011.

## 6.1.2 EMISSIONS AND FLARING

In 2012, ROC continued to report total GHG emissions in accordance with the Australian Government's National Greenhouse and Energy Reporting (NGER) Act 2007. Flaring at offshore oil and gas installations is one of the most significant sources of Scope 1 GHG emissions. Flaring is the controlled burning of natural gas during routine oil and gas operations and primarily acts as a means of relieving pressure during production. ROC actively seeks to reduce flaring where possible through technological innovation.

ROC's total flared gas volumes decreased by 58% in 2012, following investment to permit the export and sale of gas rather than flaring at Zhao Dong, China and improved operating practices at Cliff Head.

### 6.1.3 BIODIVERSITY

ROC's impact on biodiversity is assessed on commencement of all projects through an Environmental Impact Assessment. ROC manages the monitoring and protection of sensitive environmental ecosystems through the implementation of our project specific Environmental Management Plans.

### 6.1.4 WATER

Fresh water usage in ROC operations is minimal and limited to human consumption (potable water). The Zhao Dong operation significantly reduced its water consumption during 2012 by only injecting produced water back into the reservoir.

All water extracted from the oil reservoirs during production is treated (trace amounts of oil are removed) and injected back into underground reservoir formations.

#### Water treatment project

All water produced on Zhao Dong as part of the oil extraction process is injected back into the reservoirs for pressure support. With increasing levels of water production from the fields, a project was instigated to improve the quality and capacity of water handling facilities. Trials were completed during 2010 and in 2012 a Compact Flotation Unit Water Treatment Plant was successfully installed.

Benefits from the new filtration plant include a reduction in operating and maintenance costs, reduced physical footprint on the platform and improved quality of water being injected back into the reservoir.

### 6.1.5 WASTE

Where possible, ROC segregates waste materials, based on their general physical and chemical characteristics, to maximise recycling. It is the responsibility of the personnel working on ROC operations to identify and monitor all waste generated within the facilities. Field personnel are trained on key elements of waste management including information on the legislative background relating to waste disposal and the waste disposal procedures. Effective waste management by ROC reduces the environmental impact across the business and reduces costs relating to waste disposal.

#### Green solutions

- > Where possible unused and retired IT equipment is distributed to schools or non-profit organisations. Failed equipment and other electronic waste are disposed of through certified environmentally acceptable disposal agents.
- > In China, a vehicle monitoring and management system is being used to reduce mileage and overall fuel costs, together with carbon emissions.

## 6.2 OUR PEOPLE

ROC has a committed team working with an appropriate corporate governance framework to deliver successful operations with the development of our regional growth strategy. The ROC HR Management System ('HRMS') is being developed to support the growing regional business, focusing on:

- > employee engagement;
- > attraction and retention of key talent; and
- > high performance culture.

The HRMS is a framework that will support ROC in effectively managing the lifecycle of the employee experience consistently across the business from the point of attraction through to transition and optimise the investment in team success.

	2012 GOALS	OUTCOMES
<b>People</b>	<ul style="list-style-type: none"> <li>&gt; Ensure appropriate staff compensation</li> <li>&gt; Align staff incentives to include a sustainability component</li> <li>&gt; Updated office governance policies including code of conduct</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Industry benchmarking and remuneration review conducted</li> <li>&gt; Updated position descriptions and structure where required for regions</li> <li>&gt; Employee handbook introduced across the Company</li> <li>&gt; Governance policies updated including anti corruption</li> <li>&gt; Diversity policy updated and rolled out to all staff</li> </ul>
	<b>FUTURE FOCUS</b>	
	<ul style="list-style-type: none"> <li>&gt; Employee development and training</li> <li>&gt; Succession planning</li> <li>&gt; Employee engagement and alignment across regions</li> </ul>	



### Attracting and retaining the right people

There is increasing competition for skilled workers in the oil and gas industry worldwide. Given ROC is an international operator working in several countries throughout China and Asia, we find ourselves competing against much larger multinational companies for talent.

Key employee attraction and retention are critical for the long term success of ROC, enabling a productive workplace, retention of knowledge and effective succession planning. Supporting this intent are philosophies that encompass:

- > identifying, attracting, employing and retaining the right people with the right skills and experience;
- > recruiting for technical and leadership capability requirements across our focus regions;
- > market competitive remuneration, benefits, terms and conditions;
- > commitment to professional and personal development;
- > promote and transfer from within;
- > promote work life balance and flexible working practices;
- > equal opportunity and embrace diversity; and
- > a culture that recognises, supports and rewards excellence.

To support our strategy, ROC undertook an industry benchmarking and remuneration review process in 2012 using external providers. Also, we reviewed and updated our procedures and position descriptions to ensure they are aligned across all the regions we operate in. Employee development also continues to be critical for the attraction and retention of a talented workforce. ROC has plans to further support employee development in 2013.



**Daisy Yuan**

I have been working with ROC since July 2008 and was promoted to HR Co-ordinator in March 2011. I believe ROC values cultural diversity, respect, learning and development. ROC has enabled my career development. The network of support is great and my efforts are recognised.



**Steve Zuvela**

I commenced working at ROC in 2008 as a Petroleum Engineer concentrating on the Australian assets at the Cliff Head oil field. My development over time allowed me to become involved in broader roles across ROC's international portfolio, which presented me with the opportunity to move to ROC's Beijing office as a Senior Reservoir Engineer. The opportunities provided by ROC have allowed an expedited career development path not typically seen in the oil and gas industry.

### 6.2.1 HEALTH AND SAFETY

The health, safety and wellbeing of employees and contractors are ROC's highest priority and we are committed to ensuring their safety is not compromised in the delivery of business objectives.



Health and safety	2012 GOALS	OUTCOMES
	<ul style="list-style-type: none"> <li>&gt; Reduce fires and ignition sources by 50%</li> <li>&gt; Injury frequency rates to remain below the Association of Oil &amp; Gas Producers five year averages in Asia and Australia</li> <li>&gt; Maintain track record of zero fatalities</li> <li>&gt; Implement Asset Integrity Management (AIMS) improvement programmes</li> <li>&gt; Revise HSE Management System document and implement additional HSE expectations</li> </ul>	<ul style="list-style-type: none"> <li>&gt; No fires were reported in 2012</li> <li>&gt; No fatalities recorded in 2012</li> <li>&gt; Injury frequency rates below Australian petroleum industry averages in 2012</li> <li>&gt; Continued company-wide implementation of AIMS during 2012</li> <li>&gt; Emergency Response Plans and Corporate Crisis Management Plan reviewed and updated</li> <li>&gt; ROC HSE Management System document was reviewed and updated</li> </ul>
	FUTURE FOCUS	
	<ul style="list-style-type: none"> <li>&gt; Maintain our track record of zero fatalities</li> <li>&gt; Continue to implement AIMS across the Company</li> <li>&gt; Identify and implement methods of influencing good HSE and AIMS practices in our non operated joint venture operations</li> <li>&gt; Implement 'line of sight' monitoring for safety critical controls at all our operations</li> </ul>	

#### Asset Integrity Management Systems Conference

During 2012, an Asset Integrity Management Systems Conference was held in Beijing with employee and contractor personnel attending from all ROC locations. The conference covered the development and implementation of AIMS practices across the Group.

Professionally managed assets with a focus on process safety and the prevention of major accidents underpin all ROC operations. Accidents undermine ROC's 'license to operate.' In 2013, a Safety Leadership Training Programme for line management will be introduced together with 'line of sight' monitoring tools based on industry best practice.

#### Two years LTI free at Zhao Dong

Zhao Dong operations in Beijing, Tanggu and Bohai Bay achieved two years without a Lost Time Injury in November. This is a significant achievement due to the diversity of high risk activities during this period – including drilling operations, project construction work, marine and helicopter operations and pipe laying.

### 6.2.2 ETHICAL LABOUR PRACTICES

ROC's approach to recruitment and selection is designed to ensure consistency and fully incorporates equal opportunity ('EEO') principles. As an EEO employer, ROC follows recruitment practices designed to attract and retain highly skilled and motivated staff. ROC's recruitment and selection is merit based, with selection determined by assessment of applicants' skills, knowledge and behaviours versus the relevant position description criteria. ROC's practices promote and support a diverse workforce and ensure candidates are treated ethically, fairly and respectfully, providing employees with the opportunity for advancement.

### 6.2.3 WORKFORCE DIVERSITY

ROC recognises that employee and cultural diversity encourages a broad range of skills and ideas. This helps to give ROC operations a competitive advantage. ROC actively recruits local personnel in the countries of operation and invests in mentoring and capacity-building initiatives.





### 6.3 A TRUSTED NEIGHBOUR IN THE COMMUNITY

Establishing and maintaining meaningful relationships with local communities is critical to the ongoing viability of our business. The method and frequency of engagement vary according to the needs of our stakeholders; however, we take a proactive approach designed to detect early any contentious issues and engage stakeholders in identifying suitable solutions and improvement strategies to mitigate concerns.

	2012 GOALS	OUTCOMES
<b>Community</b>	<ul style="list-style-type: none"> <li>&gt; Continue educational support</li> <li>&gt; Seek new partnerships in the regions in which we operate</li> <li>&gt; Continue liaison activities with key community groups such as fishing communities for BMG</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Community support in Malaysia expanded to include the 'Love My School' programme</li> <li>&gt; Desk provided to Community Relationship Manager for Clontarf Foundation at ROC Sydney office</li> <li>&gt; A length of flow-line was trenched permitting access for fishermen near the BMG asset</li> </ul>
	FUTURE FOCUS	
	<ul style="list-style-type: none"> <li>&gt; Continue to support the communities in which we operate, focusing on solutions that will leave a long term positive legacy in the community</li> <li>&gt; Central theme of education to continue</li> <li>&gt; Remain active in local communities through sponsorship of community events</li> </ul>	

ROC initiatives support and help strengthen the social fabric of the communities in which we operate. We typically focus upon community support strategies which have education as a central theme. This year, we strengthened our partnerships by providing educational sponsorships and assistance to local schools.



#### Working with the Cliff Head community

ROC works closely with the Cliff Head community in Dongara (Western Australia). ROC was the major sponsor of Dongara District High School's participation in Perth's 2012 Rock Eisteddford. The school was placed 2nd in Western Australia for the RAW division and won a total of 10 awards. ROC also made donations towards the purchase of a school bus and science equipment.

ROC also sponsors many local community endeavours such as: the Larry Lobster Festival; the annual crime prevention review by Educational Publishing; a local council brochure seeking to attract families to relocate to the area; and hosted work experience students.

Noise levels for the residents of Dongara, near Arrowsmith Plant, were reduced after the Cliff Head operation helicopter base was relocated. This relocation also resulted in a reduction in flight time and a reduction in fuel use by approximately 15 litres per flight each way.



#### ROC and The Clontarf Foundation

ROC and The Clontarf Foundation continued to strengthen their partnership in 2012. The Clontarf Foundation exists to improve the education, discipline, self esteem, life skills and employment prospects of young Aboriginal men. ROC hosted the Bourke Clontarf Academy for a boardroom lunch for those boys who had achieved 80% or higher school attendance for the year.



#### Expanding our support in Malaysia

ROC expanded its support of the Malaysian MyKasih organisation during 2012 to include the 'Love My School' programme which provides financial support to underprivileged families educating their children. Students from low income households in Bintulu, Sarawak, are given a Smart Card which pays for their purchase of school books, stationery items and food from the school canteen.



### Nan Pai He – China community support

The fishing village of Nan Pai He is located in the eastern Chinese province of Hebei, close to ROC's Zhao Dong operation. During 2012, ROC supported the area through a number of linked initiatives:

- > tree plantings at Qiwu and Zhao Jiapu Primary Schools, developing environmental awareness amongst the children by involving them in the care and nurture of the plants and trees;
- > three students were sponsored, covering tuition and school stationery supplies;
- > sponsorship of English teacher training courses;
- > donation of school bags to local schools; packed by ROC staff, the bags included school supplies and books. Since inception in 2009, this project has donated approximately 4,000 bags to local schools;
- > support for an 'English Corner' to motivate English language learning; and
- > ROC participation in the Fisherman Culture Festival. ROC provided souvenir booklets and presented the 2012 Calendar Art Competition Grand Prizes.

### Working with the Department of Fire and Emergency Services in Western Australia

In January 2012, a bushfire occurred in the mid-west region of Western Australia, spreading rapidly towards the Arrowsmith Plant (ASP). In line with established protocols, the plant was safely shut down and evacuated. ROC maintains fire breaks around the facility. While the fire did encroach upon the plant boundaries, preventive measures taken resulted in no damage to the plant.

The ASP fire water sump was accessed by the Fire and Emergency Services Authority's (FESA) Helitac helicopter which was used to fight the fire. This access enabled a quick turnaround time for re-watering the helicopter and improving the water bombing effort.

A 'Black Start' procedure was activated (which was developed following a previous evacuation), enabling the facility to be brought back onstream and resume normal operations quickly and safely.

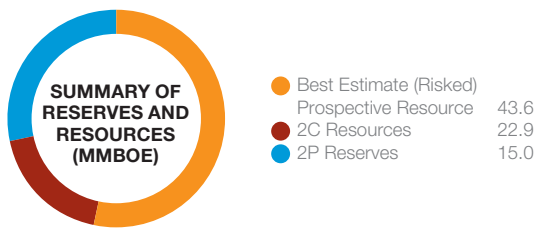
In 2013, ROC will continue building long term relationships and responding to broader community issues and needs. Our core focus will continue to target educational partnerships, and active sponsorships. ROC remains committed to our people-to-people links through providing work experience and employment opportunities in our local offices.



## 6.4 ECONOMIC BENEFITS OF SUSTAINABILITY

ROC's economic fundamentals are sound, enabling the expansion of the business through existing growth projects and other opportunities within our focus regions of Australia, South East Asia and China. At ROC, we know that our ability to sustain business growth is also dependent on our ability to operate in a socially and environmentally responsible manner.

A central theme of ROC's Sustainable Practices Framework is the delivery of value to our shareholders and all stakeholders. Through the focused delivery of our strategy, ROC has achieved a second consecutive year of profit, with a record profit after tax of US\$61 million, together with a 2P reserve addition of 2.4 MMBOE (100% reserve replacement) and a strong net cash position at the end of 2012 of US\$57 million, giving us a strong foundation to continue growth. These results are underpinned by our systems and procedures throughout the business that manage and mitigate risks.



ROC is committed to continue to produce positive outcomes for our stakeholders and to work collaboratively and productively with our partners to ensure delivery of key projects.

	2012 GOALS	OUTCOMES
<b>Economic</b>	> Deliver positive share price performance	> Share price appreciated 73% during 2012
	> Assess and secure growth opportunities in our focus regions	> Delivered record \$61 million net profit after tax > Secured exploration Block 09/05 in Bohai Bay in China > Malaysia Risk Service Contract pre-development activities continue with appraisal drilling campaign progressing well > 100% 2P reserve replacement for 2012 production
	FUTURE FOCUS	
	> 100% reserve replacement of annual production	
	> Continue to deliver value for shareholders through share price performance over the long run	
	> Continue securing growth opportunities in our focus regions	

# 7 GLOSSARY

<b>BBL(S)</b>	barrel(s)
<b>BCF</b>	one billion cubic feet of natural gas
<b>BCP</b>	BC Petroleum Sdn Bhd
<b>BMG</b>	Basker-Manta-Gummy
<b>BOE</b>	barrels of oil equivalent (6 MSCF = 1 BOE)
<b>BOPD</b>	barrels of oil per day inclusive of NGLs
<b>BOEPD</b>	barrels of oil equivalent per day
<b>CNOOC</b>	China National Offshore Oil Company Limited
<b>E &amp; D</b>	Exploration and Development
<b>Group</b>	Roc Oil Company Limited and includes, where the context requires, its subsidiaries
<b>LTI</b>	lost time injury
<b>MMBBL</b>	One million barrels of oil
<b>MMBOE</b>	one million barrels of oil equivalent
<b>NGL</b>	natural gas liquids
<b>NPP</b>	Non-production phase
<b>PSC</b>	Production Sharing Contract
<b>ROC</b>	Roc Oil Company Limited and includes, where the context requires, its subsidiaries
<b>RSC</b>	Risk Service Contract
<b>USD/US\$ or cents</b>	United States currency
<b>YTD</b>	Year to date
<b>2C</b>	Proved and probable contingent resources
<b>2P</b>	Proved and probable reserves
<b>3D</b>	Three dimensional
<b>3P</b>	Proved plus probable plus possible reserves

- *The reserve and resource information contained in this report is based on information compiled by Bill Billingsley (Chief Reservoir Engineer). Mr Billingsley BSc (Chem), MSc (Petroleum Engineering), DIC (Imperial College), who is a member of the Society of Petroleum Engineers, has more than 17 years relevant experience within the industry and consents to the information in the form and context in which it appears.*
- *2P reserves are 'Working Interest' and contain approximately 9% which is given to host governments, subject to oil price and costs.*
- *Best estimate (risky) prospective resource are estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation are required to determine the existence of a significant quantity of potentially moveable hydrocarbons.*

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