DIRECTORS' REPORT

The directors present their report of the consolidated entity ("AWE"), being the Company and its controlled entities for the year ended 30 June 2012 and the auditor's report thereon.

Directors

The directors of the Company at any time during or since the end of the financial year are:

Bruce J. Phillips, Independent Non-executive Chairman, BSc (Hons) Geol

Bruce Phillips is a petroleum explorationist who has more than 30 years of technical, financial and managerial experience in the upstream energy sector of the oil and gas industry. He has broad domestic and international exploration and production experience throughout Australia, South East Asia, Africa and South America. Bruce is an active member of Petroleum Exploration Society of Australia and the Australian Society of Exploration Geophysicists.

Bruce is currently a non-executive director of AGL Energy Limited and non-executive Chairman of Platinum Capital Limited. He was formerly a non-executive director of Sunshine Gas Limited.

Bruce was founder and Managing Director of AWE. He retired as Managing Director on 31 August 2007 and was appointed as a non-executive director on 19 November 2009 and non-executive Chairman on 18 November 2010. He is a member of the People Committee.

Bruce F.W. Clement, Managing Director, BSc, BEng (Hons), MBA

Bruce Clement has more than 30 years of oil and gas industry experience, including banking sector exposure, having held engineering and project management, commercial and supervisory roles with Exxon Corporation and Ampolex Limited, before joining AIDC Limited (Australian resource bank). Bruce joined Roc Oil Company Limited in 1997 and held the positions of Commercial Manager, Company Secretary and Chief Financial Officer, and Chief Operating Officer before being appointed Chief Executive Officer in 2008.

Bruce was appointed Managing Director of AWE on 1 February 2011.

David I. McEvoy, Independent Non-executive Director, BSc (Physics), Grad Dip (Geophysics)

David McEvoy has a petroleum geoscience background with almost 40 years experience in international exploration and development. He has held several senior executive positions in affiliates of ExxonMobil, most recently Vice President, Business Development in ExxonMobil Exploration Company from 1997 to 2002.

David is currently a non-executive director of Woodside Petroleum Ltd and ACER Energy Limited (formerly Innamincka Petroleum Ltd) and was formerly a non-executive director of Po Valley Energy Limited.

David was appointed a non-executive director of AWE on 22 June 2006. He is a member of the Audit and Governance Committee and is Chairman of the Sustainability Committee.

Andy J. Hogendijk, Independent Non-executive Director, AAUQ, FCPA, FAICD

Andy Hogendijk has had an extensive senior financial management career with Suncorp Metway, Commonwealth Bank and the John Fairfax Group and roles with Shell Company of Australia and Australian Paper Manufacturers.

Andy is a fellow of CPA Australia and is a non-executive director of Magellan Flagship Fund Limited. He was formerly Chairman of Gloucester Coal Limited and a non-executive director of Aditya Birla Minerals Limited. He was appointed as a non-executive director of AWE on 4 October 2007 and is Chairman of the Audit and Governance Committee and a member of the People Committee.

Ken G. Williams, Independent Non-executive Director, BEc (Hons)

Ken Williams has over 20 years operational experience in corporate finance with an emphasis on treasury and financial risk management as well as diverse experience in mergers, acquisitions, divestments and corporate reconstructions. During his executive career he has worked for significant Australian enterprises including Renison Goldfields, Qantas, Normandy Mining and Newmont Australia.

Ken has an Honours degree in Economics and a Masters of Applied Finance and is a member of the Australian Institute of Company Directors. Ken is a non-executive director of Havilah Resources NL, non-executive director of Curnamona Energy Limited and a non-executive director of Geothermal Resources Limited (the latter two companies now both delisted from ASX).

He was appointed as a non-executive director of AWE on 26 August 2009 and is a member of the Audit and Governance Committee and is Chairman of the People Committee.

Nicholas N. Jukes, Independent Non-executive Director, BEng (Civil), FIEAust

Nick Jukes is a civil engineer with 30 years experience in the engineering, construction and mining sectors and was formerly a senior executive with Thiess Pty Ltd.

He is a fellow of the Institute of Engineers Australia. During his career with Thiess Pty Ltd and BHP Billiton Limited, he was actively involved in the planning, development, construction and operations of major coal and metalliferours projects throughout Australia and South East Asia. He is currently Managing Director of Sedgman Limited and was formerly a non-executive director of Australasian Resources Limited.

Nick was appointed a non-executive director of AWE on 24 August 2010 and is a member of the Sustainability Committee.

DIRECTORS' REPORT

Vijoleta Braach-Maksvytis, Independent Non-executive Director, BSc PhD MAICD

Dr Vijoleta Braach-Maksvytis is an innovation strategist with more than 20 years experience in organisational change, formation of cross-sectoral and global partnerships, the commercialisation of technology, and intellectual property strategy. Previous roles include Head of the Office of the Chief Scientist of Australia, Senior Executive and Director Global Development for CSIRO, and most recently, Deputy Vice Chancellor Innovation and Development at the University of Melbourne, and is currently an advisor in the area of social innovation.

Dr Vijoleta Braach-Maksvytis is a Member of the Australian Federal Government's Green Car Innovation Fund Committee, on the advisory board of the Intellectual Property Research Institute of Australia, and is also a member of other public interest boards. She is currently a non-executive director of Orbital Corporation Limited.

Vijoleta was appointed a non-executive director of AWE on 7 October 2010 and is a member of the People Committee and the Sustainability Committee.

No directors of the Company either resigned or were appointed during or since the end of the financial year.

Company Secretary

Neville Kelly – Company Secretary, BCom (Merit), CPA

Neville Kelly is an accountant with 30 years commercial experience including over 27 years in the upstream sector of the Australian oil and gas industry, including 12 years experience with Bridge Oil Limited. Neville was also the Chief Financial Officer of AWE until 31 October 2011 and joined the Company on its public listing in 1997.

Neville was appointed to the position of Company Secretary in October 1999.

Directors' Meetings

The number of directors' meetings (including meetings of committees of directors) and the number of meetings attended by each of the directors of the Company during the financial year were:

DIRECTOR	DIRECTORS' MEETINGS		AUDIT AND GOVERNANCE COMMITTEE MEETINGS		PEOPLE COMMITTEE MEETINGS		SUSTAINABILITY COMMITTEE MEETINGS	
	A	B	A	B	A	B	A	B
B. J. Phillips	11	11	–	–	4	4	–	–
B. F. W. Clement	11	11	–	–	–	–	–	–
D. I. McEvoy	11	11	7	7	–	–	4	4
A. J. Hogendijk	11	11	7	7	4	4	–	–
K. G. Williams	11	11	7	7	4	4	–	–
N. N. Jukes	10	11	–	–	–	–	3	4
V. Braach-Maksvytis	11	11	–	–	4	4	4	4

A – Number of meetings attended.
B – The number of meetings held during the time that the director held office during the financial year.

Remuneration Report

The Remuneration Report is set out on pages 33 to 45 and forms part of the Directors' Report for the financial year ended 30 June 2012.

Corporate Governance Statement

Details of the Company's corporate governance practices are included in the Corporate Governance Statement that is set out on pages 46 to 54 and forms part of the Directors' Report for the financial year ended 30 June 2012.

Principal Activities

The principal activities of the consolidated entity during the course of the financial year included:

- exploration for oil and gas;
- appraisal and development of oil and gas properties; and
- production and sale of oil and gas.

DIRECTORS' REPORT

Operating and Financial Review

Overview of the Consolidated Entity

	2012 MMBOE	2011 MMBOE	VARIANCE %
Production			
Gas	**2.58**	3.42	(24.6)
LPG production	**0.14**	0.30	(53.3)
Condensate production	**0.28**	0.44	(36.3)
Oil	**1.69**	1.96	(13.8)
Total production	**4.69**	6.12	(23.4)
	$MILLION	**$MILLION**	**%**
Sales revenue	**298.4**	304.9	(2.1%)
Field EBITDAX[1]	**188.7**	171.8	9.8%
Exploration and evaluation expense	**(36.5)**	(63.3)	(42.4%)
Statutory Net Profit after Tax (NPAT)	**(66.5)**	(117.6)	43.4%
Less non-recurring items(after tax)	**(81.3)**	(101.6)	
Underlying NPAT[2]	**14.8**	(16.0)	
Net operating cash flow after tax	**123.9**	139.9	(11.4%)

Reconciliation of Underlying NPAT	**$MILLION**
Statutory NPAT	(66.5)
Less non-recurring items (after tax):	
Sale of Buru Energy shareholding	11.8
Recognition of deferred tax benefit on PRRT	6.9
Impairment of BassGas	(96.8)
Sale of BassGas interest	(0.1)
Yemen exploration provision	(3.1)
Total non-recurring items (after tax)	(81.3)
Underlying NPAT	14.8

1 Sales revenue less production costs and royalties. Refer also to Note 10 for information by segment.

2 AWE's Financial Report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS). The underlying (non-IFRS) profit is unaudited but is derived from the audited accounts by removing the impact of non-recurring items from the reported (IFRS) audited profit. AWE believes the non–IFRS profit reflects a more meaningful measure of the consolidated entity's underlying performance.

Summary of Financial Performance

The consolidated entity reported a net loss after tax of $66.5 million for the year (2011: net loss of $117.6 million). This result includes an after-tax impairment charge of $96.8 million relating to the BassGas project.

AWE recorded sales revenue for 2012 of $298.4 million (2011: $304.9 million) and achieved a 10% increase in field EBITDAX to $188.7 million from the prior year (2011: $171.8 million). This reflects a 20% increase in the average realised oil price from A$91 in 2011 to A$109 per barrel in 2012 and a $23.4 million decrease in production costs to $109.7 million, offset by a 14% decrease in oil production volume of 0.28 million barrels.

Total oil and gas production of 4.69 million BOE was 23% lower than 2011 and reflects the shut-in at Yolla for over 6 months for the construction of the Phase 1 BassGas Mid Life Enhancement (MLE) project. This was partially offset by small increases in volume at Cliff Head of 7.5% to 0.7 million barrels of oil and at Sugarloaf of 60% to 0.1 million barrels of condensate.

After adjusting for non-recurring items of $81.3 million, the underlying profit for the period was $14.8 million compared to an underlying loss of $16.0 million in 2011. A significant portion of the non-recurring items relate to the impairment charge for the BassGas project of $96.8 million ($138.2 million pre-tax, $41.4 million tax effect), which reflects the increase in estimated capital costs associated with the MLE project as well as anticipated increases in future operating costs.

In accordance with AWE's successful efforts accounting policy, $36.5 million of exploration and evaluation costs were expensed in 2012 (2011: $63.3 million). Exploration and evaluation costs expensed during the year included drilling costs associated with Atlas-1 ($7.7 million), Evandra-2 ($3.8 million) wells and the Redbank-Irwin 3D seismic survey carried out in the Perth Basin ($6.0 million).

Net cash from operating activities decreased from $139.9 million in 2011 to $123.9 million during 2012. This was mainly due to the lower cash receipts received during the period ($33.1 million), largely attributed to higher debtor and accrued revenue balances at 30 June 2012 compared to the previous year. This was partly offset by lower cash operating costs ($19.8 million) where prior year costs included a significant one off cost for the Tui workover in late 2010.

DIRECTORS' REPORT

Taxation

The taxation expense for the year totals $3.4 million. In addition to income tax, taxation expense includes the tax effect of the consolidated entity's Australian Petroleum Resource Rent Tax ("PRRT") and New Zealand Accounting Profits Royalty ("APR") projects. As a producer of oil and gas in Australian and New Zealand offshore waters, the consolidated entity is subject to, in addition to income tax, additional government imposts in the form of PRRT in Australia, including the extension of PRRT to onshore projects enacted during the 2012 financial year and effective from 1 July 2012, and APR in New Zealand. Exploration costs incurred outside Australia or New Zealand are not deductible.

As a consequence of the impairments made to "oil and gas" assets during the 2012 financial year, following a reassessment of the future cash flow expected to be generated from these assets, a tax benefit of $41.4 million has been credited to taxation expense during the 2012 financial year.

The extension of the Australian PRRT regime to onshore petroleum products has resulted in the recognition of a deferred tax benefit of $6.9m in respect of the starting base which is claimable against future PRRT liabilities.

Summary of Financial Position

AWE's financial position is strong with a cash position of $42.8 million and undrawn facilities of $284 million at the end of the period. In May 2012 AWE completed the refinancing of a $300 million multi-currency bilateral bank facility for a term of 3 years.

The available cash at the end of the period of $42.8 million compared to $117.1 million at the end of 2011. During the 2012 financial period AWE made significant investments in development assets ($171.5 million) which included the BassGas MLE project ($146.6 million), part of which was recovered through the sale of an interest to Toyota Tsusho Gas E&P Trefoil Pty Ltd, and exploration activities ($39.2 million). AWE also invested in the acquisition of two companies with 100% interest in two Production Sharing Contracts (PSC's) in Indonesia for US$39 million. As part of the transaction, AWE also assumed and refinanced approximately US$100 million in loans and receivables of the two companies acquired.

Operating Review

Tui

In New Zealand, the Tui Area oil project (PMP 38158, offshore Taranaki Basin, New Zealand, AWE share 42.5%) recorded gross oil production of 2.21 million barrels (AWE share 0.94 million barrels), down 21% on the corresponding period due to natural field decline. Two planned shutdowns for maintenance were successfully completed on schedule and within budget during the year.

BassGass Project

The BassGas project (T/L1, Bass Basin, offshore southern Australia, AWE share 46.25%) was shut-in from 12 December 2011 for the remainder of the period for Phase One of the MLE project. During the period the project achieved gross gas sales of 8.4 PJ, 278,000 barrels of condensate and 20,700 tonnes of LPG. AWE's share for the approximately 5.5 months of production was 4.7 PJ of gas with approximately 160,000 barrels of associated condensate, and 12,000 tonnes of LPG.

The BassGas MLE project is being progressed in two separate phases: Phase One comprising installation of an accommodation and controls module and additional compression facilities on the platform; and Phase Two comprising the drilling of additional development wells. Work on Phase One continued during the period with the successful installation of the accommodation and controls module. The installation of the compression module was not able to be completed during the period and has been delayed until the 2012-13 summer period. The project is expected to come back into production in September 2012. Planning for Phase Two work continues with the drilling of the Yolla-5 and Yolla-6 wells expected to be undertaken during the 2013-14 summer period. As at 30 June 2012, gross expenditure in relation to the MLE project is $373 million.

During the period, AWE completed the sale of an 11.25% interest in the BassGas project to Toyota Tsusho, reducing AWE's interest in the project from 57.5% to 46.25% effective 1 November 2011.

Casino Gas Project

The Casino gas project, including the Casino, Henry and Netherby gas fields, (Otway Basin, offshore southern Australia, AWE share 25%) continued its strong production performance during the year, producing 32.3 PJ of gross gas production, in line with the long-term contracted rates. AWE's share of production for the year was 8.1 PJ of gas with approximately 6,500 barrels of associated condensate. Gas production from the Otway Basin fields was marginally lower than the prior year due to a plant shut-down during this year.

Cliff Head

The Cliff Head oil project (WA31L, Perth Basin, offshore Western Australia, AWE share 57.5%) contributed gross production of 1.2 million barrels of oil. AWE's net share of production was approximately 700,000 barrels for the year. Work on the installation of a higher capacity pump for the Cliff Head-12 well was completed during August 2011, doubling early production from this well. As a result, production from the field for the 2012 financial year was 7.5% higher than the prior year. The Cliff Head joint venture is reviewing further opportunities to optimise field performance.

Onshore Perth Basin

The Onshore Perth Basin operations (AWE share 33.0% to 100%) continued to contribute modest levels of oil with net gas production through the year, with AWE's share totalling 60,000 barrels of oil and condensate and 2.3 PJ of natural gas.

AWE operates the Hovea oil facilities and the Dongara and Corybas gas fields in the region. AWE also has equity in the Jingemia oil and Redback/Beharra Springs gas fields, operated by Origin Energy.

Net gas production increased by 35% during the year to 2.3 PJ with the largest contributions from the Redback gas field. Oil production from the Hovea and Jingemia fields was lower during the year at 54,000 barrels compared to 115,000 barrels in 2011. The Hovea facility was shut-in from April 2012 with production suspended from this date.

DIRECTORS' REPORT

Sugarloaf

Drilling and production activities continued at the Sugarloaf Area of Mutual Interest (AMI) shale gas project during the year with a total of 36 wells on production by 30 June 2012. AWE's working interest in the Sugarloaf AMI is approximately 10% and a Net Revenue Interest of approximately 7.5% after deduction of landowner royalties. AWE reported net oil and condensate production of approximately 104,000 barrels, an increase of 55% compared to the prior year, and net gas production of 435 TJ, an increase of 9% over the prior year.

The operatorship of the Sugarloaf AMI was transferred to Marathon Oil on 1 November 2011. Marathon commenced a new accelerated drilling program early 2012 with 29 wells drilled during the period to 30 June 2012, of which 15 were producing at 30 June 2012.

Exploration Operations

Taranaki Basin

The Tui joint venture (AWE share 42.5%) continued with the assessment of in-fill and near field opportunities within PMP 38158 during the year. The review and rationalisation of the Taranaki Basin exploration portfolio has also continued, with the relinquishment of interests in PEP 38524 and PEP 381202 during the year. AWE has stepped down as operator of the Canterbury Basin permit, PEP 38259 but has retained its 25% interest.

Bass Basin

In exploration permit T/18P interpretation has continued on the Chappell 3D seismic survey including a study of the remaining prospectivity in the permits. AWE has reduced its interest in T/18P from 47.5% to 44.75% following completion of the sale of a 2.75% interest to Toyota Tsusho. During the year the exploration permit T/44P (AWE share 40%) was surrendered.

Onshore Perth Basin

Site preparations were completed for the planned hydraulic fracture stimulations at the Woodada Deep-1 (AWE share 100%), Arrowsmith-2 (AWE share 44.25%) and Senecio-2 (AWE share 50%) wells. The stimulations were approved by the Western Australian government authorities and subsequent to the end of the financial year, hydraulic stimulation of each of the three wells was successfully carried out. The results to date of the report have been promising with gas flows recorded from all zones during clean-up.

The Evandra-2 well was drilled in April 2012. The well did not intersect the target reservoir in the Dongara Sandstone and has been plugged and abandoned.

AWE is also continuing to pursue conventional oil and gas opportunities in the north Perth Basin. The Redback-Irwin 3D seismic survey (comprising 291 square km) was completed in April 2012 and will be used to assess the further potential in the region.

East Java Basin, Indonesia

AWE continues to assess other opportunities in the East Java Basin, with work carried out in the Titan, Terumbu and North Madura PSC's. Seismic reprocessing was completed during the year on the 2D surveys in both the Terumbu and North Madura PSC's.

The Atlas-1 well in the Titan PSC (AWE share 40% and operator) was drilled in June 2012. The well intersected a well-developed carbonate reservoir which contained gas but unfortunately the gas contained a high percentage of carbon dioxide and the well was plugged and abandoned.

A shale gas study area located in the Central Sumatra Basin in Indonesia was also granted to AWE during the year and is one of the first four initial shale gas areas to be granted in Indonesia. Work being carried out on the shale gas study is expected to be completed in the first quarter of the 2013 financial year.

The wells drilled during the year are summarised as follows:

WELL NAME	LOCATION	AWE SHARE	COMMENTS
Atlas-1	East Java (Indonesia)	40.0%	Plugged and abandoned
Evandra-2	Perth Basin	100.0%	Plugged and abandoned
29 wells in Sugarloaf AMI	Eagle Ford Shale	10.0%	15 wells in production at year end; work being carried out to bring remaining wells into production

Corporate

AWE implemented a number of key strategic initiatives during the year including the acquisition of growth assets in Indonesia, the sale of an 11.25% interest in the BassGas project and completion of the divestment of its 13% shareholding in Buru Energy Limited. The Company has continued its focus on maximising the value of existing assets during the year with significant work being undertaken on key assets, including the BassGas MLE project and the Perth Basin shale gas project.

AWE's wholly-owned subsidiary ARC Energy Pty Limited sold all of its ordinary shares held in Buru Energy Limited on 29 July 2011. Net proceeds from the sale of the shares amounted to $16.9 million.

AWE sold a portion of its Bass Basin portfolio to Toyota Tsusho for a cash consideration of $80.13 million. Under the terms of the sale and purchase agreement, AWE sold an 11.25% interest in T/L 1, which includes the BassGas Project, and a 2.75% interest in T/18P. The transaction was completed on 30 March 2012.

On 17 February 2012, AWE (AAL) NZ Limited, a wholly owned subsidiary of AWE, completed the acquisition of a 100% interest and operatorship of two Production Sharing Contracts (PSCs) offshore Indonesia, which includes the undeveloped Ande Ande Lumut (AAL) oil field, which is estimated to contain 76 million barrels of recoverable oil, as well as a number of potential exploration opportunities. Consideration paid for the shares of the two companies that are parties to the PSCs was US$39 million. In addition, another wholly owned subsidiary of AWE assumed and refinanced approximately US$100 million of existing loans and receivables of the two companies acquired.

On 8 December 2011, the Company declared a special fully franked dividend to shareholders of 5 cents per share ($26.1 million).

DIRECTORS' REPORT

Outlook

Following completion of the acquisition of AAL in February 2012, AWE management has focussed on establishing the development team and advancing pre-development studies in respect of the AAL oil field.

Part of the offshore construction work for Phase One of the BassGas MLE project involving the installation of the compression module has been delayed and is now planned to be undertaken during the 2012-13 summer period. Phase Two of the project, the drilling of the additional development wells on the platform is scheduled for the 2013-14 summer period. A revised project plan has been agreed by the BassGas joint venture which will incorporate the re-establishment of free flow gas in September 2012.

A review of reserves has confirmed the Company's 2P reserves at 30 June 2012 of 56.1 million BOE, a net reduction in reserves of 5.28 million BOE in addition to production for the year of 4.69 million BOE. A major part of the revision is to account for the divestment of 11.25% interest in BassGas (-6.9 million BOE), while upward revisions were made to Sugarloaf reserves (1.38 million BOE) and onshore Perth basin (net increase of 0.22 million BOE).

At year end, AWE held a net cash position of $27 million, following a year of significant investment in development projects and acquisition of growth assets. The Company generated sales revenue of $298 million and operating net cash flow after tax of $124 million, despite the shut-in of BassGas production for over six months of the year. Following the establishment of a $300 million multi-currency bilateral loan facility to replace the existing $150 million revolving loan facility, and with production continuing from its portfolio of production assets, the company is well positioned to implement its growth initiatives during 2012-13.

The Board believes AWE is in a strong financial position to take advantage of opportunities to add to its asset base and to further exploit those assets within the Company's existing portfolio. The Board and AWE management looks towards to the future with considerable optimism.

Significant Changes in the State of Affairs

Other than as set out below, in the opinion of the directors there were no significant changes in the state of affairs of the consolidated entity during the financial year under review.

Australian Clean Energy Act

The Australian Government's Clean Energy Act (CEA) was enacted during the period leading to a potential obligation, from the 2013 financial year, to acquire and surrender eligible emission units in respect of the covered emissions from operated and non-operated facilities under AWE's existing joint venture arrangements (or be liable to unit shortfall charges). The expected cash flows arising from any liability arising under the CEA have been included in the estimated recoverable amount for assets when assessing their carrying values, however the impact on the recoverable amount is not expected to be material.

Dividends

Dividends paid or declared by the Company to members since the end of the previous financial year were:

	CENTS PER SHARE	TOTAL AMOUNT $'000	FRANKING	DATE OF PAYMENT
Declared and paid during the 2012 financial year – special dividend	5.0	26,094	Franked	20 January 2012

Events Subsequent to Balance Date

In the opinion of the directors, no matter or circumstance has arisen since 30 June 2012 that has significantly affected, or may significantly affect:

- the consolidated entity's operations in future financial years;
- the results of those operations in future financial years; or
- the consolidated entity's state of affairs in future financial years.

Likely Developments

In the opinion of the directors, the provision of further information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations would be likely to result in unreasonable prejudice to the consolidated entity and accordingly, has not been included in this report.

Directors' Interests

The relevant interest of each director in the share capital of the Company, as notified by the directors to the Australian Securities Exchange ("ASX") in accordance with section 205G(1) of the Corporations Act 2001, at the date of this report is as follows:

	FULLY PAID ORDINARY SHARES
B. J. Phillips	2,900,914
B. F. W. Clement	30,000
D. I. McEvoy	30,000
A. J. Hogendijk	10,000
K. G. Williams	20,000
N. N. Jukes	–
V. Braach-Maksvytis	–

No directors' interests are subject to margin loans.

Details of employee share options are set out under "Options".

DIRECTORS' REPORT

Share Rights

The Employee Cash Share Plan is designed to generate performance-based cash awards that may be converted, at the Board's discretion, into AWE shares, cash or other employee benefits.

The key elements of the plan, as more fully described in the Remuneration Report on pages 33 to 45 include:

- Rights are granted each year;
- The number of rights granted is determined by the employee's level in the Company, fixed remuneration at the time of grant and both the performance of the Company and the employee in the previous financial year;
- The number of rights that can be granted as a percentage of fixed remuneration at the time of grant is converted to a number of rights using the 30 day volume weighted average AWE share price in June of the grant year;
- There are three tranches of rights with separate vesting criteria:
  - Retention (excluding the Managing Director);
  - Absolute Total Shareholder Returns ("TSR"); and
  - Relative TSR;
- The vesting period will be three years and there is no retesting.

At the date of this report the details of rights on issue under the Company's share rights plan are as follows:

NUMBER	VESTING DATE
300,861	30 June 2012
2,969,870	30 June 2013
4,228,460	30 June 2014
7,499,191	

No ordinary shares were issued during or since the end of the financial year as a result of the vesting of the share rights.

Options

Under the Company's Share Option Plan, as more fully described in the Remuneration Report on pages 33 to 45, options to subscribe for ordinary shares in the Company were issued at the discretion of the directors and the exercise price and exercise period were determined on the basis of rewarding employees if the Company's share price achieves significant long-term growth. Options are unlisted and are granted with exercise prices not less than the average market price of the Company's shares for the five days prior to grant.

The Plan was approved by shareholders at the time of the float of the Company. The sum of the number of shares issued on the exercise of options in the previous five years and the number of unexercised options cannot exceed 5% of the total number of shares on issue at any time.

No options were granted during the financial year and up to the date of this report, and no options will be granted to employees in the future as the Share Option Plan has been replaced by the share rights plan.

At the date of this report the details of options on issue under the Company's Share Option Plan are as follows:

NUMBER	EXERCISE PRICE	EXPIRY DATE
300,000	$3.18	30 August 2012
45,000	$3.56	8 October 2012
125,000	$3.65	6 April 2013
275,000	$4.10	12 May 2013
300,000	$4.08	11 June 2013
1,466,000	$3.28	14 August 2013
75,000	$2.60	15 January 2014
437,500	$2.75	15 June 2014
3,023,500		

The Company has not issued ordinary shares as a result of the exercise of options during or since the end of the financial year.

DIRECTORS' REPORT

Indemnification and Insurance of Officers

Under the Company's Constitution, and to the extent permitted by law, every person who is, or has been, a director or secretary is indemnified against:

1. a liability incurred by that person, in his or her capacity as a director or secretary, to another person (other than the Company or a related body corporate of the Company) provided that the liability does not arise out of conduct involving a lack of good faith; and
2. a liability for costs and expenses incurred by that person:
   (i) in defending any proceedings in which judgement is given in that person's favour, or in which that person is acquitted, or
   (ii) in connection with an application in relation to any proceedings in which the Court grants relief to that person under the Corporations Act.

During the financial year, the Company paid premiums based on normal commercial terms and conditions to insure all directors, officers and employees of the Company against the costs and expenses in defending claims brought against the individual while performing services for the consolidated entity. The premium paid has not been disclosed as it is subject to the confidentiality provisions of the insurance policy.

The Company has entered into Indemnity Deeds to indemnify directors 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 controlled entities, except where the liability results wholly or in part from serious and wilful misconduct by the executive or director.

Audit and Non-audit Services

Details of the amounts paid to the auditor of the Company, Ernst & Young, and its related practices for audit and non-audit services provided during the year are set out below.

	2012 $	2011 $
Statutory audit:		
Auditor of the Company:		
Ernst and Young Australia – audit and review of financial reports	**242,200**	226,600
Non-audit Services:		
Ernst & Young Australia		
– Taxation compliance services	**95,000**	140,659
– Due diligence procedures related to asset acquisition	**62,160**	–
Overseas Ernst & Young firms		
– Taxation compliance services	**–**	3,283
	157,160	143,942

Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

The auditor's independence declaration is set out on page 32 and forms part of the Directors' Report for the year ended 30 June 2012.

Rounding Off

The Company is of a kind referred to in Australian Securities and Investments Commission ("ASIC") Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order amounts in the financial report and the Directors' Report have been rounded off to the nearest one thousand dollars unless otherwise stated.

Signed in accordance with a resolution of the directors:

B. J. PHILLIPS
Chairman

B. F. W. CLEMENT
Managing Director

Dated at Sydney this twenty seventh day of August 2012