27 October 2016

Chairman's Address, Annual Meeting 2016

10.00AM Thursday, 27 October 2016

Te Wharewaka Centre, Wellington

Good morning ladies and gentlemen.

As a quorum is present I call the meeting to order. I would like to welcome you to the 2016 New Zealand Oil & Gas annual meeting.

In addition to the shareholders in the room I am advised we have received proxies and postal votes for 123 million shares representing some 37% of the company's capital.

I would like to begin by introducing my fellow members of the Board.

Shortly I would like to introduce you to our acting-CEO Andrew Jefferies.

It's the first time he has had the opportunity to speak to shareholders, and with his background as an engineer he will be able to go into some detail about our operational activity.

Later the meeting will turn to shareholders' questions and then we will deal with the election of directors foreshadowed in the notice of meeting.

We will hear from both of the director nominees, and you will have the opportunity to put questions to them. After the meeting, please join us for a cup of tea.

I would like to focus my remarks on the Board's strategy, including our plans for growth, our tight focus on cost containment, and I know many of you are interested in our ongoing approach to capital management.

I am very pleased that earlier this week shareholders received a fully imputed dividend of four cents per share.

Together with a 35 per cent increase in share price since the market opened for the year in January, the dividend means that shareholders are 45 per cent better off over all for the year to date.

Distributions resumed following several reforms that have been put in place since the company chose not to declare a dividend when it was not in a tax-paying position, which in turn meant it was not producing imputation credits.

We have been able to minimise our cash burn.

We have changed our method of accounting so that exploration spending is immediately expensed, unless it leads to a successful discovery of hydrocarbons.

We have also pulled back on exploration because, in the current environment, oil prices are considerably lower than they were two or three years ago.

As a consequence, the company has been able to move through the downturn in oil prices with significantly positive cashflows, which we are now able to distribute.

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In September, the shareholder-approved program of buying back shares accelerated with a liquidity event, when we were able to purchase around 17 million shares on-market.

Together with other purchases we have now bought back and cancelled around 6 per cent of our capital base.

I see a statement of considerable confidence in the company from that event, because we would have been prepared to buy many more shares at that price, which was a premium to the recent market price.

That there were not more sellers demonstrates confidence the business is on the right track and positioned to deliver further growth and further gains for shareholders.

Our share buyback will continue.

So I would like to turn attention to the areas where the board sees future performance.

First, we will continue to keep tight control of our costs.

We have seen the effectiveness of this in the past year. For example, head office employee costs this year are down by 35 per cent. Other overhead costs have also been reduced.

While we have been able to achieve savings, we have been able to maintain a focus on health and safety, where our biggest exposure is through our non-operated joint ventures.

Both management and the Board want New Zealand Oil & Gas to be known by our joint venture partners for our insistent focus on health and safety processes.

We insist on reviewing near misses incidents and accidents, audit joint facilities and ask tough questions over and over.

One of the greatest insights from health and safety practitioners is that businesses which get their health and safety processes right also get other business processes right and tend to be well-run operationally.

So our active involvement in non-operated joint ventures helps to deliver better performance from our assets, and helps to deliver cost savings.

While we are taking a hard look at our costs, the drill bit looks less of a priority as oil prices remain subdued.

We have been exiting our lower priority exploration acreage around New Zealand.

The remaining prospects are deepwater, very large potential blocks that can only be accessed after lengthy investigation.

The Clipper permit off Canterbury is one example.

The Barque prospect in Clipper is a potential game changer for the Otago and Canterbury regions, for New Zealand, and for our company if we were able to drill it successfully.

I can update you today on the progress of Clipper: We have recently received approval from the regulator for a change of conditions, which allows us to continue further analysis.

Potential partners are actively screening the data and reviewing our scientists' work on Clipper.

Their interest is significant in economic conditions when frontier basins like Canterbury have to clear high hurdles to beat the other opportunities on offer around the world.

Likewise, our partner Woodside continues its analysis of deepwater prospects in Taranaki and the Great South Basin, where we are seeking opportunities of world class scale.

When we look at resources in New Zealand, however, one opportunity on our radar is the potential to gain more from the producing Kupe field. Andrew Jefferies will talk more to that shortly.

Kupe is our most valuable asset and a good model for the sort of asset we would like to acquire more of - In a jurisdiction we understand, providing resources into a market where we can achieve sound prices, and with long term upside potential.

Other companies that have weaker balance sheets than ours are beginning to bring similar assets to market. We screen them rigorously.

In the latest twelve months your executive has reviewed around 20 opportunities, none of which have met our investment hurdles.

We have a balance sheet capable of supporting acquisitions and the board is prepared to move, but only where we see a clear pathway to value.

Last year our major acquisition was Cue Energy. In the last week you have seen announcements that we have consolidated our Cue position to confirm we control close to 50 per cent of it.

Cue has announced its intention to cut costs and exit low priority exploration. It has already exited its New Zealand exploration acreage.

As the largest shareholder in Cue, we share with minority shareholders an interest in better performance and value. I have great confidence in the strategy and governance.

Ladies and gentlemen, you will be aware of the social context of our industry.

In the past year virtually every government in the world signed up to the Paris agreement on climate change and the New Zealand Government ratified it recently, committing New Zealand to playing a part in reducing global carbon emissions.

So I want to take a moment to talk about our role in this context.

The oil and gas we produce helps to power our way of life. More than half the world's primary energy today comes from oil and gas.

Oil helps to keep a billion cars on the road, 20,000 commercial jet airliners in the air and 50,000 ships at sea.

Gas heats 40 per cent of the world's homes, generates 22 per cent of the world's electricity and powers much of the world's industry and manufacturing.

Just about everything we use, buy, eat, wear or do requires fuel generated from oil or gas.

So, while the world is transitioning to renewables, it will take decades for the costs of new energy sources to fall to levels that make them realistic replacements in the energy mix.

We need to meet energy needs during this transition.

Natural gas is a clean, accessible, affordable, reliable and flexible energy source.

In parts of the world that rely heavily on coal - that's most of the world - natural gas can help reduce carbon emissions by replacing coal for uses such as generating electricity.

At home, as the government is incentivising a switch away from carbon through its emissions trading scheme, we have begun to prepare for increasing emissions liability.

So we have a role to play in the energy mix and we will have for a long time into the future.

We do need to tell our story.

It's essential to earn the trust and support of our community.

That's why I am proud of the work we are doing.

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Our company has community panels to provide a sounding board so that we better understand outside perspectives on our activity - as well as to advise us on social investment.

This year we asked community panels to report back about how they think we are going.

I would like to read you some of their comments:

"We have found New Zealand Oil & Gas excellent to engage with and very supportive of the suggestions and ideas we have put forward.

"We have found New Zealand Oil & Gas very open and transparent about its motives...New Zealand Oil & Gas has been very proactive in seeking the views of members of the South Taranaki Community about social and environmental issues that they may be influencing in the region. ... This showed total lack of arrogance on behalf of New Zealand Oil & Gas. If this approach is maintained there is little need for further improvement in this area."

This is a resounding endorsement of the responsible, positive role we are playing.

Our engagement reduces risk and builds the foundation upon which we can earn returns from our investment - as well as making a wider contribution.

This year, for the first time, we have published on our website a sustainability report, to be open and transparent about our activities.

I hope you will take the opportunity to read about our performance on all our sustainability measures, including our environmental impact and safety as well as our community relationships.

They show a company that is responsible, ethical, working in a way you can be proud of and making contributions that will sustain support into the future.

So to sum up: The business has come through a difficult year for the industry performing soundly from an operational point of view, delivering an excellent health and safety record, and, financially, delivering positive cashflows.

Distributions are being made again in the form of imputed dividends and, with our tight control of costs and excellent assets, I expect this to continue while our remaining exploration involvement minimises costs and offers exposure to profound opportunities.

I would now like to introduce Andrew Jefferies to you.

In doing so I would like to acknowledge and pay tribute to Andrew Knight, who completed his service with the company at the end of the financial year after nearly a decade first as an independent director and then as CEO.

Andrew Jefferies has been in charge of our engineering and operations since joining the company in 2013, and has been an impressive executive with around 25 years in the industry.

It's my pleasure to invite him to address you.

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