

# news release

29 October 2013

## Chief Executive's Presentation, New Zealand Oil & Gas Annual Meeting 2013

Ladies and gentlemen

It's a pleasure to join you to review the year and look ahead to a future in which your company is well placed for continued success.

We have enjoyed another profitable year.

Our two producing assets, Kupe and Tui, have continued to perform.

The \$100 million or so of revenue they contributed this year allowed all \$46.6 million of debt to be cleared from the company's balance sheet.

Net profit after tax was up by 30 per cent, to \$25.9 million.

We have enough cash on hand to sustain a competitive dividend, at a gross yield of around 9 per cent, at the same time that we are funding an increased exploration programme.

Our increased capability has given us the opportunity to also step up our HSE performance and oversight.

We have been, and will continue to be, active in our engagement with Joint Venture operators to ensure we meet our high performance expectations.

This will require us to continue to make investments into appropriate maintenance and ensure operating cost management does not drive a culture inconsistent with excellent operating performance.

We conducted our first operations as operator for many years and we were able to deliver incident-free operations.

Last year I talked about a vision for a New Zealand Oil and Gas company reflecting our values in the way we engage with communities in which we operate.

This year we have started on this journey.

It's been a year in which we have materially stepped up activity, especially in New Zealand, where we have entered new permits and started a busy drilling campaign.

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**NZOG stock symbols:**

NZX shares – NZO  
ASX shares – NZO

It's been a year of constant adjustment in our portfolio, with significant changes in our domestic and international investments. We found oil and gas in Indonesia, and we exited our Cosmos investment.

At home we picked up new permits where drilling is about to commence.

We re-entered the Canterbury basin and we returned to onshore in Taranaki.

I will go into some of these events in more detail but first I would like to put them in the context of what we do when we are deciding where to explore.

Our work starts with a concept developed by applying science.

Based on limited seismic data and geological modeling a concept is developed into a number of leads.

We then seek to learn more. We do this by reprocessing old seismic data, by using modern computing and through our scientists applying knowledge from our own activities and that of others.

Once we have narrowed down the concepts we normally seek more information by collecting modern 3D seismic data.

This provides a clearer picture of the concept. It's the data we use to when making a decision to drill.

One of my highlights of the year was watching one of our team enthral a group of school girls by telling her story of exploring for ancient rivers, valleys and volcanoes and of oceans rising and falling.

Marine life and plants lived and died, and then were buried over millions of years to ultimately turn into the hydrocarbons we seek to find trapped today.

She showed a seismic picture and her theory of a trap buried far beneath the sea.

She finished her story by pointing out that she would be far better at her job than most in the industry if she is only wrong four times out of five.

New Zealand's success rate in testing these concepts is one in nine

That scene is what our business is about: We decide whether to invest capital on the basis of pictures painted by talented geo-scientists.

And we do it knowing that, more often than not, a commercial success won't result.

We are driven to explore because our producing assets, by definition, are in decline from the first day of production.

Therefore to sustain and increase our returns we need to replace our reserves with new discoveries.

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We try to improve our chances of technical success by employing high quality talent.

We try to focus on geological basins where we have particular expertise.

And we also manage our investment risk by spreading our activity across a range of opportunity types.

We will be aiming to invest around \$35 million US dollars a year on exploration.

This sum has to be spread across the concepts as well as the assets that are further along and getting ready to be explored through drilling.

We aim to have some prospects in the portfolio with more investment risk and higher potential returns. The best examples are in deep water and new basins, and that's why we have returned to the Canterbury region.

But we are not ready to operate deep water frontier wells, so we will continue to look for partners who can offer a level of exposure that's right for us - and who will value the skills and relationships we can bring to the table.

We also look for balance in the portfolio by including assets that have a better chance of technical success but less potential payout.

Our investment in Indonesia is an example of this.

We have been involved in two wells in the Kisaran permit this year, and both confirmed hydrocarbons.

The commercial potential is being assessed.

Our first well, which produced oil explored a concept developed in 2006 when oil was discovered in the same area.

Up the road with our second well, we went exploring for a more substantial reservoir.

The drilling there discovered the rock structure our geologists had hoped would be present, but oil and gas appears to have already passed through it.

They kept drilling to test lower structures and found gas and condensate which flowed at a promising rate.

It will take up to six months more to assess the flows from those wells. Engineers are working out the rate that they believe the well will flow and for how long.

Those figures can then be used to work out the economics of a development.

We are at least a year away from a final investment decision.

We have gained a lot of insight as well relationships from our Indonesia investment.

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Signs are hopeful for a return on that investment and we will continue to explore in Sumatra, where other opportunities are progressing.

But it's not always the case that the economics of a development will meet our investment criteria.

That was the case in Tunisia, where we decided to exit our Cosmos investment.

It was also the choice we made at Kakapo, where we would have been drilling with 100% exposure to well costs.

The economics of our portfolio demand that we focus on the best chances for economic success, at the most prudent levels of exposure.

There are three excellent examples about to be drilled.

Matuku, just south of the Tui fields, is ready to go and it's waiting for the rig to finish drilling its prior commitment.

We farmed into this permit along with Takapou and Taranaga which are all also on the Western Taranaki fairway.

If Matuku comes in we will be well positioned for the further interest that will result for other prospects on this trend.

Immediately following Matuku, the drilling rig will move to Tui and drill at Oi and Pateke 4-H over summer.

We have more than doubled our reserves at Tui, and increased our involvement in both Oi and Pateke, by acquiring a 15 per cent interest from Mitsui.

This was an attractive transaction and we understand the Tui asset well.

Pateke 4-H is an extension well that drills into part of the field that is not currently being reached at Tui, so it has a higher chance of success, although with a limited potential reservoir. But if new reserves are discovered there, the field can be linked easily to the existing Tui infrastructure.

Oi is a higher risk prospect, meaning that chances of success are lower, but the potential is far greater.

While all this activity is going on, we are working hard to farm out our permits around Taranaki. We are participating in the Government's Block Offer, and we are continuing to seek new opportunities.

As we do so, our context is beginning to change: The industry in New Zealand is entering a season of unprecedented activity with up to 13 wells being drilled offshore in the next 18 months.

And with that comes unprecedented levels of community interest in what we are doing.

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For a long time the exploration industry tried to keep its head down and operate away from the glare. But that is no longer possible.

Recent topical discussions in the news media have illustrated the questions people are asking about our activity.

They have seen disasters here and overseas and the consequences of them.

Our industry as a whole has to be able to respond to those concerns, because they are reasonable. It is fair for our community to seek assurance that we will not damage our beaches. It is fair to ask what benefits our activity will bring.

And we have good answers.

Our drilling provides for New Zealand's needs. We are going to use oil and gas for energy for decades to come.

The question I posed in the video at the start of this meeting is simple: It's whether the energy New Zealand uses is produced by New Zealanders here, or by New Zealanders working overseas for someone else.

We must also keep renewing our commitment and our capacity to operate safely, and we must not compromise on this.

As an example, the Kaheru well, which we will operate in 2015, will not flow test hydrocarbons to the surface but we will complete downhole testing to further reduce risk.

We can also show our community the benefits we can bring.

Oil is our 4th largest export earner.

Our industry contributes nearly \$2 billion a year to the Taranaki GDP. We add about the same to indirect GDP. And it produces over 6000 jobs there.

Imagine doing that in Oamaru.

Imagine doing it in Kaitaia.

Workers in our industry are the highest paid and most productive in any sector.

They produce \$333 of wealth for every hour they work, and earn incomes twice the national average.

With a 50% increase in exploration, the government has estimated that its royalty income could have a net present value of almost \$13 billion.

That's all new money to pay for schools and hospitals.

This is a good story.

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If we are to unlock community support for what we do, we need to be close enough to our communities so people understand we take their concerns seriously. That we can be trusted. And that they can have a say in the contribution we make.

I believe it's our role to be New Zealand's oil and gas company.

As one of the more diversely owned companies in New Zealand, we can take on the responsibility on behalf of communities to be the partner of choice for international explorers.

We need those partners to unlock New Zealand's resources, and we can offer our own skills and capability in our own backyard.

This will be a priority for us in the coming year.

It's a future I'm looking forward to.

Our increased level of activity is opening up new opportunities.

It is bringing new partners and new exploration to our door.

And over time, this will help us to sustain and grow our returns to you.

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