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## Chairman's Annual General Meeting Address

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Ladies and Gentlemen, I am delighted to be here with you today to present the 2013 Nexus Energy Limited AGM, my second as Chairman of your Company.

Before I get started today, I want to acknowledge the disappointment and frustration the shareholders must have with our share price. I am disappointed and frustrated as a shareholder, too!

I would have thought that the market would have valued differently the Crux Retention Lease conditions, the exploration upside at Echuca Shoals and the revised Gas Sales Agreement at Longtom. But the market is the market!

The debt load and cashflow are formidable hurdles... and one would have to agree that investing in a vehicle such as ours, remains a relatively high risk.

That being said, Lucio and his team are firmly focused on the delivery of our strategic agenda. At the core of this strategic agenda is a desire and a commitment to grow shareholder value over time.

### Progress Against Strategic Objectives

The 2013 financial year has been an important one for the Company as Lucio and his team focused on executing the strategic agenda set in August 2012, which Lucio outlined for you at this event last year. I am pleased to say that good progress was made on each element of this strategy.

Lucio will speak about the progress made during the year in more detail later, but I would like to take a moment to highlight the significant advancements made towards commercially and technically repositioning our assets with a view to unlocking value in those assets for shareholders over the long term.

While the production outage at Longtom in the second half of the financial year was disappointing and impacted our financial performance for the year, the newly agreed terms for the Gas Sales Agreement positions the Longtom asset well for the future by enhancing the value of the total supply chain.

Action was also taken during the year to strengthen our balance sheet and we exceeded our cost reduction target to deliver a 37 per cent reduction in administration costs. We also completed an organisational review, which I will discuss in further detail later.

Having repositioned our assets and streamlined our cost and capability base, the business is now focused on progressing the second phase of our strategic agenda as we look to strike the optimum balance of assets in our portfolio and secure funding for our next stage of growth and development.

### Compelling Industry Fundamentals

I would like to take a moment now to talk about the compelling industry fundamentals which support our strategic agenda. As I stated last year, demand for energy around the world continues to increase, with the International Energy Association predicting a global rise in energy demand of one-third by 2035.<sup>1</sup> Australia as a whole has been a beneficiary of this dynamic for some time. On top of this the forecast tightening in East Coast supply and growth in LNG demand from Asia, themes which have been the subject of a lot of attention in the media recently, are both positive for your Company.

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<sup>1</sup> World Energy Outlook 2012 Factsheet, International Energy Association

## **Global Growth of FLNG**

Looking more specifically at the global growth of Floating LNG – I firmly believe that Australia, with its reputation of reliability and security of supply, has the potential to maintain its position as a competitive supplier of LNG into the Asian region through the adoption of FLNG technology.

This technology is rapidly evolving and maturing. Three projects have already been sanctioned and seven projects are in pre-FEED studies and another 19 projects have been identified as potential FLNG opportunities.<sup>2</sup> The PETRONAS' Kanowit project, which took its final investment decision in 2012, is planned to start in 2015,<sup>3</sup> making it the first planned start-up FLNG project in the world. On top of this, new design advancements which provide a range of facility sizes to best fit the resource size are now available, opening up the possibility of FLNG technology to a wider range of potential projects.

Indeed, FLNG development concepts are increasingly being considered amongst the major industry players, a number of which have positions in the Browse region alongside our Crux and Echuca Shoals assets.

Your Company is well placed to benefit from these developments. We have two assets strategically located in the proven Browse Basin which are well suited to Floating LNG. Through the Crux Joint Venture we are also fortunate to be in partnership with Shell, a global leader in FLNG technology.

In Crux we have a significant stake in a large, gas resource proximate to other large exploration prospects with the potential for exploration upside. The asset is rich in liquids, has manageable Co2 content, and benefits from moderate water depths and close proximity to export markets. The Retention Lease work program, signed in February, will drive the earliest commercialisation of that resource and preserves the potential for a standalone development.

On top of this our 100 per cent ownership of the Echuca Shoals exploration permit has discovered petroleum initially in-place volumes with exploration upside. The combination of these assets leads me to believe that Nexus has a potential role to play in the future development of the Central/East Browse Basin.

## **Australian Energy Industry in Transition**

A further trend that is supporting our confidence in our strategic agenda is the dynamic emerging in the East Coast Australian gas market that is expected to drive domestic gas price increases over the next few years.

This dynamic, which has been receiving a lot of attention in the media recently, is being driven by three principle elements.

Firstly, existing long term gas supply contracts are concluding. Secondly, existing conventional gas fields currently in production are being depleted and new discoveries have been limited, which is resulting in constrained supply. And finally, the industry is currently experiencing ongoing domestic demand growth which is being driven by increasing consumption.

These factors, combined with the development of an LNG export industry in Queensland, mean that we may see domestic gas prices increase to regional price parity levels.

Strategically located in the Gippsland Basin, and as a producing asset with proven reserves and exploration upside, our Longtom asset is well positioned to benefit from these dynamics. In the context of these changing dynamics Lucio and his team identified and progressed an opportunity to revise the terms of the Gas Sales Agreement with Santos during the year, which I mentioned a little earlier.

The new agreement incorporates metrics around delivery and pricing that are more attractive for Nexus and enable us to capitalise on the tightening East Coast market dynamics. On top of this, the new agreement includes a framework for the possible supply of additional gas quantities.

This was a significant achievement and I commend Lucio for both his vision and hard work in making this a reality.

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<sup>2</sup> Wood Mackenzie and Company announcements

<sup>3</sup> Wood Mackenzie and Company announcements

Within the context of these macro trends I believe Nexus is well placed to move forward. We have good assets and a clear strategic plan supported by compelling industry fundamentals, and a Board and management team well equipped to execute it. As we continue to explore a range of options to fund the next phase of our growth, including the divestment of an interest in one or more of our three assets, which Lucio will discuss in more detail in a moment, our priority is to act in a disciplined way with a view to building shareholder value.

## **Corporate Governance**

Moving now to the area of corporate governance, you will remember that last year we acknowledged that Nexus had been in a year of transition as we sought to put ourselves on a stronger footing for the future.

Part of that process involved ensuring we had the right corporate governance structures in place, and to that end we initiated an organisational review. That review was completed earlier this year, with the result being that Board and organisational structures have been realigned to support the delivery of our strategy and reflect industry best practice.

Our commitment in 2012 to clearly and transparently communicate the link between remuneration outcomes and the achievement of our strategic objectives was in general well received by shareholders. In our 2013 remuneration report we have again sought to strike an appropriate balance between fixed reward and short and long term incentives. There will be an opportunity to discuss the remuneration report and take questions from shareholders later in the meeting today, and I would note that we are committed to continuing to engage with and seek feedback from shareholders on this area in future.

With regard to the current Board, Nexus has a good breadth of experience including direct major LNG project experience, finance and stakeholder relations. Today we will be asking you to vote on the re-election of Mr John Hartwell to the Board. Mr Hartwell has been a Director since 2011 and we believe he is an asset to the Company. He has more than 18 years' experience working with the Australian Government in a broad range of areas such as trade, commodity and energy and resources. In particular, the eight years that he spent as the head of the Resources Division in the Department of Resources, Energy and Tourism in Canberra means Mr Hartwell brings unique insights and knowledge to Nexus about policy, legislative changes and administrative matters in our industry.

As an ongoing discipline we will continue to review the composition of the Board to ensure we have the right capabilities to support the delivery of our strategy for the benefit of shareholders.

I would like to take a moment to reiterate that our focus on best practice in corporate governance will continue as we look forward to 2014 and beyond as we seek to capitalise on the good progress made on our strategic agenda so far.

And finally, before I hand over to Lucio I would like to acknowledge the management team and employees at Nexus for their efforts this year, and to thank you, our shareholders, for your continued support. We look forward to delivering further on our strategic agenda in the year to come.

**Don Voelte AO**  
Chairman

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