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Event Transcript

Company: Santos Limited
Title: Full-Year Results
Date: 19 February 2016

Start of Transcript

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the Santos Limited 2015 full year results analyst call. At this time all participants are in a listen-only mode. Following the presentation there will be a question and answer session, during which time if you wish to ask a question you will need to press star-one on your telephone keypad. Please be advised that this conference is being recorded today, Friday 19 February 2016.

I would now like to hand the conference over to your first speaker, Chairman of Santos, Mr Peter Coates. Thank you, please go ahead.

Peter Coates: Good morning everyone and welcome to Santos' 2015 full year results. I'm Peter Coates, Chairman and with me today is our CFO, Andrew Seaton and I'm also very pleased to welcome the Company's new CEO, Kevin Gallagher.

Last year I promised our shareholders that we would come through this difficult period as a different company with a different mindset and that is exactly what is happening. Over the last 12 months the Santos Board and senior management have worked very hard to respond to rapidly changing conditions and circumstances confronting all oil and gas companies. The strategic review conducted during the second half of last year was firmly focused on strengthening the Company's balance sheet. We now have the capital buffer to work through the low oil price environment.

We have also started to change the way we do things in every respect. With our major investment program now behind us, Santos is focused on becoming a low cost producer. Producing more for less is the new mindset. The focus is on finding ways to do things better, more efficiently and more effectively, but that journey is only at its beginning and the Board and Kevin are agreed that this is his first and most important priority as he takes the reins.

Kevin will introduce himself to you and make a few preliminary remarks on his approach to that task after the overview of the results. Turning to our results, we will refer to the presentation released earlier this morning. It is also available on our website. We will provide you with a summary of the key points and of course there will be time for your questions afterwards.

Let's turn to slide 4. Now Andrew will talk to the financials in more detail shortly, but I want to say at the outset that in terms of both the bottom line result and where the Company's share price is today, the Board and senior management acknowledge and regret the impact on our shareholders. Between September 2014 and the end of 2015 we saw the price of oil fall by over $60 per barrel. Prices continued to deteriorate into this year and look to remain at these lower levels for longer than anyone originally expected. The key drivers of those outcomes are an extraordinary set of external geopolitical and market events beyond our control. They are indeed beyond the control of any single oil and gas company.

The key reasons for the net loss of $2.7 billion are the impairments of almost $2.8 billion after tax and the broader impact of low oil prices. The impairment charges primarily relate to the Cooper Basin and GLNG and our exploration assets in the Gunnedah Basin. The impairment charge is an accounting adjustment that relates to the book value of the Company's assets. They are primarily a reflection of the current oil price environment.

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I am firmly of the view that over the last 12 months we took the appropriate actions in order to deal with these immediate market challenges and with the support of our shareholders we have put the balance sheet in a stronger position. Our liquidity of $4.8 billion in cash and undrawn committed facilities provides a further buffer to deal with short-term challenges, but I must stress that we are looking at this as only a buffer. The new dividend framework is consistent with that objective. Our 2015 final dividend is as forecast at the time of the equity raise in November last year. Going forward dividends will be based on a payout ratio of underlying earnings.

We have a well-diversified portfolio with a number of high quality low cost assets and this gives the Company options to manage through a period of low oil prices. As I said, we also started the process of significantly lowering the cost base of this Company's operations. Kevin's first objective is to complete that process so that Santos is sustainable and self-funded at low oil prices. He has a lot to work with and I want to give you some examples before I hand over to Andrew.

Firstly, in terms of our operations Santos performed very well throughout 2015, despite the challenging market conditions. We demonstrated continued improvement in safety, the lost time injury frequency rate of 0.1 per million hours worked was our best safety performance on record. This was achieved whilst delivering the highest production in seven years.

The first cargo from GLNG was a culmination of a historic journey for Santos and we are very proud of the project's early performance. Train 1 production has regularly exceeded 110% of nameplate capacity, it has already produced over one million tonnes of LNG and shipped 16 cargoes. This is the kind of legacy asset that will generate cash for decades to come.

Secondly, we made a good start on getting to a lower operating cost base. We drove down unit production costs by 10% to $14.40 per barrel. Our capital expenditure was down 54% to $1.7 billion and we are saving $160 million per annum in gross labour cost. On top of that the Company secured $230 in gross supply chain savings.

Now thirdly and finally, I want to talk about the business outlook for Santos. I accept that like most in the sector we did not fully anticipate the timing, the speed or the depth of the down cycle for oil prices that we are enduring. But let's remember that we are running a long-term business. Final judgement on the success of our LNG strategy and our outlook should be measured through the oil price cycle, not simply based on today's spot prices.

So to summarise my opening comments, I firmly believe there are many reasons to have confidence in the Company's future. With that overview I'll now hand over to Andrew Seaton to run you through the financials in more detail.

Andrew Seaton: Thanks Peter and good morning all. There's no question that we're going through a tough time, not just Santos but the whole industry. In this slide there are five key points that enable us to say with confidence that we're well positioned for this lower oil price environment. First, our operations are performing well and we've realised material and sustainable cost reductions across the business, which are evident in our numbers today. But we're certainly not done and we must continue to improve our performance.

Second, the balance sheet was materially strengthened with the $3 billion in new equity which we raised late last year. Third, we have $1.2 billion in cash and $3.6 billion in undrawn debt facilities available today. This position will be further strengthened this quarter with the receipt of over $0.5 billion from the sale of Kipper. This liquidity provides more than ample headroom for a period of low oil prices.

Fourth, we expect to be free cash flow positive in 2016 at oil prices of above $32 a barrel, after contracted asset sales which have already been announced. So to be clear on this point, at $32 a barrel our net debt will not increase this year. Lastly, we have no material drawn debt maturities until 2019. As Peter said, we've taken the right steps to ensure the balance sheet is positioned for a low oil price environment.

Turning to slide 8, you can see the results summary for the year. I'll provide some more detail around the impairments on the next slide. EBITDAX of $1.9 billion was down 17% on a like-for-like basis. This was a credible result given the oil price decline and reflects a good operating performance with a focus on cost reductions right across the business. Underlying net profit after tax was $50 million, 91% lower than the prior year, a result which was clearly affected by the weak oil price. Operating cash flow, which is the key focus for the organisation, was $1.1 billion due in part to the defensive nature of our domestic gas assets.

I'll now talk to the impairments on slide 9. Our expectation is that the impairment charges will not impact our investment grade credit rating or any of our debt facilities. The impairments reflect the lower oil price environment, subsequent reduction in capital expenditure and associated deferral of development plans. The oil price deck is shown on the slide and graduates from US$40 a barrel this year to US$75 a barrel from 2019 on a long-term real basis. In formulating our impairment assumptions, as in previous years, we reference forecasts from external agencies such as PIRA, IHS Herold, Wood Mackenzie, the EIA and the IEA.

This deck has been reduced by US$30 a barrel in 2016 and US$20 a barrel thereafter, when compared with our 2015 assumptions. This is the primary reason that the impairment announced today is above the $3.4 billion pre-tax upper end of the range which we flagged in November last year. I must also stress that this deck is what we use for the long-term impairment modelling. For near-term planning purposes we use lower prices, which will be evident when I speak to our net debt outlook on slide 16.

In the Cooper the impairment primarily relates to our Cooper gas assets, which are increasingly exposed to oil linked pricing. The reduction of capital expenditure in the Cooper has reduced our development plans across the basin and therefore the undeveloped 2P gas reserves, which I'll talk to on a subsequent slide. The impairment of GLNG results from the lower oil price outlook. In the case of Gunnedah, whilst we continue to progress the evaluation and approvals processes for the Narrabri gas project, the impairment charge reduces the carrying value to zero.

Moving to slide 10, the 7% lift in production resulted in the highest full year result since 2007. The strong performance from our LNG portfolio is evident in the purple section of the bar graph, up almost 70% on last year. PNG LNG is currently producing at annualised rates above 7.6 million tonnes per annum and GLNG Train 1 is consistently producing at over four million tonnes. Our 2016 full year guidance is maintained at 57 million to 63 million barrels of oil equivalent.

Slide 11 breaks down sales revenue. LNG sales revenue was up 40% in 2015, driven by the strong operating performance from all of our LNG assets. Despite the lower oil price, the domestic gas business delivered only marginally lower sales gas and ethane revenue, reflecting the defensive nature of this part of our portfolio. Crude oil revenue was down almost 50%, due both to lower prices and also lower volumes.

Moving to production costs on slide 12, you can see a reduction on every line item other than those associated with our LNG growth. We are realising cost savings and efficiencies across the business and we're working with our joint venture partners to do the same in assets which we don't operate. The main focus areas are labour costs, procurement, supply chain management and other process improvement initiatives. In particular, our business in the Cooper has undergone rapid change. A whole layer of management has been removed along with 20% of the workforce, as we manage the business for current activity levels.

Capital cost savings and efficiencies are also a focus. In the Cooper 2015 well costs were on average 12% below 2014 levels and 20% lower in the last quarter. In Roma our latest incremental project, Roma West 2B, is realising 60% savings in well pad installation and 25% savings in flow line construction, compared with the previous Roma West 2A phase. A lot of this leverage comes from simplification of engineering design and from standardised fabrication. Finally, on this slide you'll note that we've separate LNG plant costs from upstream production costs. This is because going forward our unit production cost metrics will exclude LNG plant costs, as these costs specifically for our GLNG business include costs associated with not only produced but also with third party processed volumes.

On slide 13 you can see the breakdown of capital expenditure for 2015 and our forecast for 2016. With the major LNG CapEx period ending we're focused on delivering a sustainable capital program consistent with the external environment. 2016 CapEx guidance is now 70% lower than 2014 levels.

Slide 14 shows our liquidity position. As I mentioned previously, at 31 December our liquidity stood at $4.8 billion which includes $1.2 billion cash. Also as I said earlier, this will increase further this quarter following the receipt of $520 million in cash from the sale of Kipper. Over the last few months we've repaid about $2 billion debt and all our committed bilateral facilities are currently undrawn. The majority of these facilities don't mature until 2018 and 2020 and so we're in a strong position with significant flexibility to manage our balance sheet.

The waterfall chart on slide 15 shows the reduction of net debt, which totalled around $1 billion in 2015. All of our debt is denominated in US dollars and so the depreciation of the Australian dollar through the year increased the Australian dollar value of debt by $900 million. In 2016 we will change our reporting currency to US dollars. This will bring us in line with most of our industry peers and negate this impact of FX on our reported debt levels in the future.

So at the end of the year we had net debt of $6.5 billion. If you consider the breakdown of this figure some $2.6 billion is non-recourse PNG LNG project finance and a further $1.6 billion is the subordinated European hybrid notes. The remainder, which is our senior unsecured net debt, is around $2.3 billion and this of course will reduce further this quarter when we receive the Kipper proceeds.

Slide 16 takes a look at the forecast debt position going forward. The chart on the right shows that after asset sales we expect no increase in net debt over the course of 2016, based on an average Brent price of US$32 a barrel. That is our operating cash flow, plus already committed and announced asset sales such as Kipper, will cover our capital expenditure plus the committed dividend. On previous calls I've outlined our cash flow sensitivity, which is that a US$1 a barrel increase in oil price will result in a $40 million increase in operating cash flow. So as the chart on the left shows, if the oil price were to average US$40 over the course of 2016, we would expect to reduce our net debt by around $300 million over the year.

Turning to our debt maturity profile on slide 17, as mentioned earlier all of our bilateral facilities were repaid last year and remain available for us to redraw if required. The remaining maturities are shown on this chart and as you can see, we don't have any material drawn debt maturities until 2019. Of course we do have the optional redemption of our hybrid notes of the first call date in September 2017 and we have flexibility in how we deal with this in the future.

Moving to slide 18, as outlined at the equity raising in November and as Peter said in his opening remarks, the Company has adopted a new dividend framework. We've moved away from a progressive dividend policy in favour of a payout ratio which, subject to business conditions, is expected to be a minimum of 40% of underlying net profit after tax. The Board has resolved to pay a 2015 final dividend of $0.05 a share fully franked. The DRP will be active with a 1.5% discount, but will not be underwritten.

Now let me turn to our reserves position on slide 19. The chart talks to the most significant changes in yearend reserves. The yearend process has taken into account the oil price forecasts used in our impairment analysis. In light of the lower oil price and lower spend levels, Gunnedah Basin 2P reserves have been re-categorised as contingent resources. Divestments include the already contracted or completed sales of Kipper, Stag and 50% of Mereenie. Cooper gas reserves decreased by 19% before production. This is primarily due to the adoption of lower oil and gas price assumptions and the subsequent removal or reclassification of undeveloped 2P reserves.

GLNG 1P reserves increased by 13% before production, while 2P reserves were broadly in line with the prior year. Our new oil price deck did not have a material impact on GLNG 2P reserves. Overall, after 2015 production Santos' 2P

reserves were down by 24% at 945 million barrels of oil equivalent. More detail can be found in our reserves report that was released to the ASX today.
In closing, while the external environment is certainly tough, as Peter said, we've taken the right steps to ensure the balance sheet is positioned for a lower oil price. We have made material and sustainable cost reductions, but there's more to be done. We've reduced our debt and have almost $5 billion in liquidity available today. We are confident that this provides a solid platform from which to manage the portfolio through this period of low oil prices.

With that I'll hand back to Peter.

Peter Coates: Thank you Andrew. As I mentioned at the outset, I'm pleased to say Kevin Gallagher joins us on the call today. I know he would like to make a few preliminary comments before we take your questions. Over to you, Kevin.

Kevin Gallagher: Thank you Peter and good morning, ladies and gentlemen. Let me start by saying how pleased I am to be here today. As you're aware, I've only been in the job for a couple of weeks so I'm not yet in a position to provide you with any great insights or details about my plans for Santos going forward. I can say, however, that I'm not wasting any time in my efforts to get up to speed and understand the issues and the opportunities across our assets in order to develop a clear strategy for our future, and will be working hard to build an organisation with a reputation for delivering what we promise.

Meantime, there is no question that the current oil price presents a significant challenge for our industry, to Santos and most significantly to our shareholders. The dynamics of supply and demand have brought into stark reality the need to ensure that oil and gas assets are operated in a disciplined and efficient manner. Indeed, our business needs to be sustainable at these lower oil prices and on that matter you heard Andrew talk about the oil price debt used for impairment testing. However, let me assure you we are using current low oil prices for business planning purposes going forward. Let me also say that I am confident that our broad asset portfolio and balance sheet strength provide a platform for our Company to deliver stable returns to our shareholders in the future. Indeed, it is this belief in the combination of our great assets and internal capability that encouraged me to join Santos.

If we look at the production and safety results presented today, it is clear that operationally the business has a strong foundation and that I have a lot to work with. But what cannot be ignored is the steep decline in the oil price and the impact that it's having on our business. As a result, it is clear that we have to do better in the future. It is therefore imperative that we continue to take costs out of our business, hence my absolute focus and my first priority over the next few months will be to look closely at our operations. I will be scrutinising our portfolio of assets and the structure and processes that we have in place to manage them. I will be working hard during this time to develop the right management team, the right strategy and the right culture to make our business sustainable in a low oil price environment, while positioning Santos to take full advantage of rising commodity prices in the future.

So let me conclude by saying that I'm looking forward to the challenges ahead and I look forward to updating all of you on the progress we make in due course. Thank you and I will now hand back to Peter.

Peter Coates: Thank you Kevin. We'll now take your questions and I'll hand over to the operator. Can we have the first question please?

Operator: Thank you, your first question comes from the line of Dale Koenders from Citigroup. Please ask your question.

Dale Koenders: (Citigroup, Analyst) Thank you. Just in terms of the cash flow breakeven at $32 a barrel chart that's been presented, I was just wondering if you could provide some guidance as to how you think this number looks in current year, 2017, 2018, when we get to a full year of production from GLNG lower third party purchases as a percentage and obviously a shift to higher price LNG contracts.

Peter Coates: Thanks Dale, I'll hand that over to Andrew.

Andrew Seaton: Yes Dale, you make a couple of good points there. The difference moving forward into 2017 is that we will have completed the construction of GLNG Train 2, so our CapEx will be lower and we've guided for GLNG to $370 million in CapEx this year. About half of that relates to the downstream, so that won't be there in 2017.

Secondly, we'll be ramping up Train 2 through that period and so we will have higher volumes and higher cash flows out of that asset. Thirdly, we're continuing to take the costs out of the business, so as Peter, Kevin and I have all highlighted, operationally I think this business is also going to look quite different in 12 months' time. So that breakeven will improve. Now clearly there's an asset sale in that $32 number and we're not proposing asset sales for next year, but when you add up the impact of higher operating cash flows and lower CapEx, I think we're going to be pretty well positioned.

Dale Koenders: (Citigroup, Analyst) Do you think it could be something similar to that $32 number? Or is there potentially the opportunity to be lower?

Andrew Seaton: Yes Dale, I've given that sensitivity to oil price of around $40, so you can see that the asset sale this year equates to about a $15 a barrel help to get that $32 a barrel breakeven. But I've also alluded to the fact that about $180 million of our CapEx is GLNG downstream-related that won't be there next year, so that brings us back to within $400 million of that $32 million number - $32 a barrel number. So it's not outside of the realms that we take that out of OpEx and CapEx and certainly Kevin's sitting here nodding at me as we're on the line, I think that's his major driver.

Dale Koenders: (Citigroup, Analyst) So if we were then to think about your balance sheet, is it fair to assume that - obviously the comment was made from Kevin about balance sheet strength - that you are comfortable in the current oil price environment, given the liquidity that you have available at least until that 2019 timeframe?

Peter Coates: Yes Dale, we took divisive steps in November/December last year and they really have set us up for this year in this oil price environment to manage that debt position. I think we've been quite transparent on that slide 16 that our view is that we have a strong balance sheet, a good liquidity position, which gives us a good buffer in this low oil price environment. We're very confident of that.

Dale Koenders: (Citigroup, Analyst) Okay and then just finally, noting that GLNG has outperformed nameplate by 10%, yesterday Origin was talking about APLNG well outperformance and the opportunity to cut CapEx or produce at higher rates. Do you have a similar opportunity there with GLNG? If so, which path do you think you'll take given the weakness in global LNG markets?

Peter Coates: The GLNG asset is really going well. We've talked about Train 1 operating above nameplate capacity. We could equally talk about the upstream hubs, all three of the new hubs being successfully commissioned and running also above nameplate capacity. The outperformance of the Fairview well stock has been a thematic that we've talked about for several years now and that really continues and Roma is emerging as a strong asset as well. So GLNG is certainly meeting and exceeding our expectations at the moment and as we say, Train 2 is on track to start up in the second quarter. So I do think it's a positive outlook for GLNG across the board.

Dale Koenders: (Citigroup, Analyst) Okay, excellent. Thank you guys.

Operator: Your next question comes from the line of Nik Burns from UBS. Please ask your question.

Nik Burns: (UBS, Analyst) Yes, thank you. My first question is for Andrew. It's just one of the key debates amongst investors at the moment is that if oil prices do stay lower for longer, Santos could be forced to reduce net debt further,

either to protect your investment grade credit rating and/or to ensure you meet relevant debt covenants, either net debt to EBITDA or debt to equity. Just in that context, what comfort can you give to investors that if oil prices do stay at current levels you won't be forced to take steps to reduce debt further?

Andrew Seaton: Yes thanks Nik, very good questions and I'd refer you again to the slide 16 that we put out today. At $32 a barrel, which is slightly below current levels, if that is sustained for the full year our net debt will not increase in 2016, which is very important. We have an investment grade credit rating at the moment and that was reaffirmed not so long ago by S&P based on our current debt levels.

You mentioned there covenants and I'd point you to the breakdown of our debt that I have reinforced and that is that of our $6.5 billion in debt, $2.6 billion is non-recourse PNG LNG project finance which we show on our balance sheet. $1.6 billion is the hybrid which is subordinated. So really our theme around secured net debt is $2.3 billion and coming down because of the Kipper sale. So that's really where the focus is for covenants, so that's what gives us confidence to say that I don't foresee any covenant issues at all.

Nik Burns: (UBS, Analyst) Just in terms of the $4.8 billion in liquidity, there's likely to be covenants around that. So in terms of what can you give us, any guidance around the covenants around your liquidity position to ensure that at a low oil price that liquidity remains available in the medium term?

Andrew Seaton: As I said, covenants really aren't an issue. Most of our debt facilities fall under what we call a common provisions deed poll and the covenant suite is set out on a consistent basis there. So the comments I made about our senior unsecured debt apply equally to our undrawn bilateral facility.

Nik Burns: (UBS, Analyst) Okay, that's clear and just probably a question for Peter; the last time we had a call I think you told investors that we shouldn't believe everything we read in the press around potential asset sales. There's been some additional speculation in the press in the last couple of weeks around Santos potentially testing the market again around PNG LNG stake. What can you say about that?

Peter Coates: Look, I'd say that the steps we took in 2015 - I'm reaffirming - reasserting what Andrew's just said, but the steps we took in 2015 to strengthen the balance sheet, they provide us with a buffer against ongoing low oil prices. We have no need to sell assets. Our focus is on reducing cost, improving productivity to the point where we are a self-funding and sustainable business at low oil prices. That's our focus, we've no need to sell assets.

Nik Burns: (UBS, Analyst) Okay, that's clear. Thank you Peter, cheers.

Operator: Your next question comes from the line of James Redfern from Merrill Lynch. Please ask your question.

James Redfern: (Merrill Lynch, Analyst) Hi, good morning. Thank you, I had two questions please. The first one is in relation to Cooper Basin 2P gas reserves, 726 petajoules. I just wanted to know how that ties in with the Horizon GLNG contract for 750 petajoules. The second question is just in relation to slide 16, the asset sales of $600 million for this year. $520 million is Kipper, what was the other $80 million there? Because in your cash flow statement you had asset sales of $80 million in 2015, so I just want to reconcile that. Thank you.

Peter Coates: I'll handover to Andrew for a more detailed comment, but I want to just talk about the reserves downgrade in general terms. The reality is that we and the rest of the oil industry have less commercial reserves at $40 oil than we had at $80 oil, that's a fact of life. Reserves will continue to fluctuate with the price outlook and also most importantly with our cost structure. If we achieve our objectives of reducing the cost base in this company, the reserves will come back. Of course part of Kevin's priority is to build an effective exploration strategy for the long term, but I stress again if we can achieve our objective of reducing the cost base in this company, the reserves will come back.

Andrew, do you want to talk in particular about the Horizon?

Andrew Seaton: Yes James, specifically in relation to Horizon, we're in year 1 of a 15 year supply contract which we call Horizon to GLNG. We've got, as you pointed out, 726 petajoules of 2P reserves, we've also got gas in underground storage. We've got a big inventory right now of gas in storage in the Cooper and that'll be used certainly in the next few years to help meet those Horizon commitments. The Horizon sale was never linked specifically to the Cooper, it's Santos portfolio gas, we can draw that from wherever we choose. The reality is most of it will come from the Cooper, but I'd reinforce Peter's comments that our focus really is on the cost base in the Cooper and making sure that we bring more 2P back on. If you look at the history of that asset over the years, it has been quite successful in converting 2C to 2P over the long term.

Then the second question was in relation to slide 16.

James Redfern: (Merrill Lynch, Analyst) Yes, that's right, just reconciling the asset sales of $600 million.

Andrew Seaton: The asset sales, yes, sorry. The asset sales, $520 million is Kipper. We've also announced the sale of the Stag asset in Western Australia. We also have some contingent payments due on other asset sales that have previously closed in the last year and also in prior years.

James Redfern: (Merrill Lynch, Analyst) Okay. All right, thank you. That's great, thanks a lot.

Operator: Your next question comes from the line of Mark Samter from Credit Suisse. Please ask your question.

Mark Samter: (Credit Suisse, Analyst) Yes, morning guys. I guess I'm going to ask you guys the same question as I asked Origin yesterday in relation to the LNG projects, I'm just curious on your view of whether there is tangible, viable synergies that could be achieved by looking into the merger of the two projects, or any other project as well for that matter.

Peter Coates: Thanks Mark. Look, as you know I've read your report and as usual it's very interesting and very thoughtful. You spoke of consolidation and collaboration. I'm not going to talk about consolidation but I will say that your comments on collaboration are right to the point. Our focus on reducing costs, it's not just driving costs from productivity down in the business we've got, but if we can find ways through working with our other colleagues in the industry, it doesn't matter whether it's APLNG or QCG, we will try and capture those benefits. So if collaboration means cost saving, then we will have collaboration with other projects, it's as simple as that. Kevin is absolutely focused on this and Kevin, I think - would you like to comment?

Kevin Gallagher: Yes, sure. I think whether it be Origin or any other party for that matter, I said earlier that one of my priorities or my priority is to be looking across all of our assets and looking for all of those levers and all of those opportunities to collaborate with all of our partners across the industry to drive costs out of our business. If you believe that it's lower for longer, then I believe there'll be a greater will across the industry to do that.

Mark Samter: (Credit Suisse, Analyst) You look back at history, all the major mergers in the industry have tended to happen at this stage or slightly later, but in the down cycle, towards the end of the down cycle. Is Santos ready to consider where there's value to be added, corporate level activity as well?

Peter Coates: Mark, we can't comment and we don't want to comment on any corporate activity, but you know, I think your point on collaboration is well made and well understood and Kevin's given you the right answer on that. We will explore every effort we can to reduce costs.

Andrew Seaton: And Mark, we'll always focus on value to our shareholders above everything else.

Mark Samter: (Credit Suisse, Analyst) Maybe just one question quickly, if I can, on New South Wales as well, should we be interpreting the impairment and the reserve downgrade more as a sign of at the moment Santos doesn't have the capacity to fund it, rather than the economics have changed in New South Wales? Within that context everyone's rightly focused on cutting costs at the moment, but someone somewhere in the world one day is going to have to start to develop new projects again. In New South Wales the economics might or might not look okay, but certainly 12 months ago potentially the economics looked quite good. Just how you guys are thinking about the time when you need to start deploying capital rather than…

Peter Coates: Spot on with that Mark, you know, it's a quality gas resource, it's still an important part of our east coast gas story. The write down in book value is due to the oil price decline and our focus at the moment is progressing the approval process. It's as simple as that. There's no - you shouldn't read anything more into it than that.

Mark Samter: (Credit Suisse, Analyst) Okay, brilliant. Thanks guys.

Operator: Your next question comes from the line of Kirit Hira from Macquarie. Please ask your question.

Kirit Hira: (Macquarie, Analyst) Morning guys. Listen, just a couple of questions on slide 16 again. Just trying to understand what the operating breakeven is for Santos in that chart. Obviously the $500 million benefit relates to net cash flow movement, operating cash flow. There's probably a component in the $1.1 billion that's maintenance CapEx that needs to be deducted, but can you give us a number around I guess the operating breakeven including maintenance CapEx?

Andrew Seaton: I guess, Kirit, in the answer to the previous question I alluded to if you took out the asset sales we'd be around $47 a barrel, operating cash flow breakeven after all CapEx and dividends. So I guess your question then is how much of our $1.1 billion in CapEx is maintenance versus growth CapEx? The answer to that, I said before about $180 million is the GLNG plant downstream, about $150 million we've previously disclosed is exploration. So there's $330 million. I guess we'll be driving further CapEx out of the business moving forward. So of the $1.1 billion, if you said that perhaps $700 million is sustaining, then do the maths, that would bring you back to a $37 a barrel operating breakeven across the entire portfolio after sustaining CapEx and a committed dividend.

Kirit Hira: (Macquarie, Analyst) Okay, in terms of that $700 million, how much is stay in business CapEx versus you just having to keep drilling to maintain production? Is that a significant number? Would it be $200 million to $300 million?

Andrew Seaton: I'm not drawing a distinction between those two. If you look at our CNFA, our construction fixed assets, which is our minor capital projects and maintenance, that's probably more like $100 million, $120 million. But we are in a business, both in the Cooper and in GLNG, where we do need to continue to drill wells. So I guess we think of that circa $700 million as more akin to a stay in business.

Kirit Hira: (Macquarie, Analyst) Okay and just one last question from me; in terms of the write down of GLNG, I know that you've got a recoverable amount of GLNG, a residual amount of $9.4 billion. Now I understand that doesn't include restoration liabilities, which I'd imagine would be quite significant for GLNG, but is there any sort of number you can give us there in terms of the restoration liabilities? Because that $9.4 billion does actually feel quite high based on the oil price assumptions that you've adopted today.

Andrew Seaton: I guess you have to remember that GLNG is a long-term project. We disclosed the value of our total portfolio of restoration liabilities, but we don't break that down. But I suppose for GLNG restoration is a long way out in the future. These plants will produce for probably 40 years and also the wells are all pretty shallow and easily abandoned. So I would say to you that the restoration liability for GLNG is not that high.

Kirit Hira: (Macquarie, Analyst) Okay, great, thank you.

Operator: As a reminder, ladies and gentlemen, to ask a question it's star-one on your telephone keypad. Your next question comes from the line of John Hirjee from Deutsche Bank. Please ask your question.

John Hirjee: (Deutsche Bank, Analyst) Good morning everyone. A question, I guess, to you, Peter. Did the Board consider paying no dividend at all, rather than the nominal amount that you did to try and preserve cash? Could you give us some of your thinking in terms of the dividend being paid?

Peter Coates: Look, obviously we've got to balance the needs and expectations of our shareholders with the needs of the business. Yes, of course we considered all options in terms of what we should do with our dividend. We felt though that this was appropriate in the circumstances. We felt that a $0.05 dividend was appropriate.

John Hirjee: (Deutsche Bank, Analyst) Okay, thank you. Perhaps an operational question on GLNG; the comments made here suggest that Train 2 is on track for start-up in the second quarter of this calendar year. Could you give us an idea whether the learnings from Train 1 mean that ramp up of Train 2 could be quicker and your contractual obligations therefore could be satisfied earlier? Is there any scope for that? Or is it going to be similar to the process on Train 1?

Peter Coates: John, just from my point of view and I'll hand over to Andrew for his comments, but I think you're right; there's obviously some learnings that we've had from the commissioning of Train 1 and they will be applied to Train 2 and we will see a better commissioning through and quicker commissioning process of Train 2. I think that's a pretty fair comment, but you know, that's already built into the schedule and when we're saying Q2.

Andrew Seaton: Yes Peter, I suppose the first comment I'd make is that we were very pleased with the ramp up of Train 1, certainly within the parameters that we'd set. Probably the main challenge we had was pipe cleanliness, that as the velocity of the gas in the pipes picked up, it picked up dust and welding crud and that sort of thing. So we had to bring the plant down quite regularly for strainer changes. So I guess there's a learning there for Bechtel that they're ensuring the pipe cleanliness on Train 2. But if we get as good a ramp up with Train 2 as we did with Train 1, I think we'll be pleased.

John Hirjee: (Deutsche Bank, Analyst) Thank you very much.

Peter Coates: Kevin, do you want to add to that?

Kevin Gallagher: Yes, what I would add to that is having looked at the ramp up on Train 1 and from my experience on other LNG operations, that was a world class performance and I would hope that we'd take lessons from that and repeat it. I'm really looking forward to visiting the site next week and meeting with the guys up there. That will be one of the things that I'll be looking at and talking to them about.

John Hirjee: (Deutsche Bank, Analyst) Thanks everyone, thank you.

Operator: Your next question comes from the line of James Bullen from Taylors. Please ask your question.

James Bullen: (Taylor Collison, Analyst) Good morning gentlemen, just a quick question, I guess, around the balance sheet. You talked quite a lot about how robust it is, you talked about how your liquidity position is very strong. I've just noted that your subordinated notes are trading at about $0.80 in the dollar in the UK and they've got some of the highest interest charges on them. Have you thought about buying those back?

Andrew Seaton: Yes, good question. We have considered buying them back, but at this point in time we don't have any intention of doing so.

James Bullen: (Taylor Collison, Analyst) Thanks and just to round the downgrade to reserves in New South Wales, you made the comment there that that was primarily oil price-related. These are domestic gas reserves, surely there's still CPI contracts that are available in the domestic gas market.

Andrew Seaton: The domestic gas market in the east coast has being increasingly linked to oil prices. Our Horizon contract out of the Cooper now is fully oil price linked and that's flowing through to pricing that we've seen particularly in the Warrenville hub, which then has an impact on the Sydney market. So I guess we're now in a new paradigm for east coast gas prices, that there is a linkage between oil prices and gas prices. The point to make on the Narrabri is the fact that we believe it's a quality gas resource, we think it's still very important to the east coast gas story and that's why we're pleased to have it in the portfolio.

Peter Coates: I'll just add to that too. Someone made a comment earlier, you know, we do have to prioritise our capital obviously and when you're talking about something that is undeveloped at the present time, where at the current oil prices it's marginally commercial, then it makes sense to just progress the approvals process and wait for the right timing.

James Bullen: (Taylor Collison, Analyst) Great, thank you.

Operator: Your final question comes from the line of Joseph Coe from Regal. Please ask your question.

Joseph Coe: (Regal, Analyst) Hi, could I just ask in relation to the 2P reserve, the sensitivities around those and I guess if you use spot oil prices into perpetuity, what would they be?

Andrew Seaton: That's not something we've done the technical work on, so we don't forecast spot prices into perpetuity. You can see the deck that we put out today and we base that on the views of well-respected industry commentators. So that's the technical analysis we've done.

Joseph Coe: (Regal, Analyst) Do you include any sensitivity numbers in your studies?

Andrew Seaton: Reserves is a very complex question of development planning and future construction costs. We run a very comprehensive reserves process and we have that independently audited by external reserves auditors and that's the numbers we've presented today.

Joseph Coe: (Regal, Analyst) Right, thanks.

Operator: There are no further questions from the telephone lines. I would now like to hand the conference back to your presenters for closing remarks. Thank you and please continue.

Peter Coates: Well thank you all very much for joining us on this presentation. It's been a great opportunity to introduce Kevin to you and I think a great opportunity to answer your questions and present our results. So with that we'll thank you again for attending and I'll close down the conference. Thank you.

Operator: Ladies and gentlemen, that does conclude our conference for today. Thank you for your attendance. You may all disconnect.

End of Transcript