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PNG LNG capacity increased, first LNG on track for 2014 Capital cost estimate increased to US\$19 billion

Santos advises that Esso Highlands Limited, a subsidiary of Exxon Mobil Corporation and operator of the PNG LNG Project, has just completed and provided to co-venturers a cost and schedule review for the Project.

Key aspects of the cost and schedule review include:

- the Project is 70% complete and on track for first LNG in 2014;
- LNG plant capacity has increased to 6.9 million tonnes per annum; and
- the estimated gross final capital cost has increased to US\$19 billion.

The operator has confirmed that shipment of the first LNG cargo remains scheduled to occur in 2014 as previously advised with good progress being achieved across all parts of the Project. Drilling is underway on the first two production wells, all piling is complete and foundations are underway at the Hides Gas Conditioning Plant, the offshore pipeline has been completed and all major process equipment for the LNG plant and all pipe rack modules on the LNG jetty have been installed.

Construction progress is well advanced at the Komo airfield, where laying of the runway asphalt is underway, and the movement of materials via the Highlands Highway to Hides is exceeding plan.

The operator has also confirmed an increase in LNG plant capacity, from 6.6 million tonnes per annum (mtpa) to 6.9 mtpa, which is now available to be sold into the market.

The operator has advised that the estimated final capital cost has increased from US\$15.7 billion to an estimated US\$19 billion. Foreign exchange impacts that have been realised since the previous project cost update in December 2011 and the operator's estimated foreign exchange impact forecast to accrue to first LNG cargo, account for US\$1.4 billion of the capital cost increase. This brings the total realised and estimated foreign exchange impact (predominantly the stronger Australian dollar) since project sanction to US\$2.1 billion.

Santos is well positioned to manage the impact of a strong Australian dollar on project capital costs. The company's Australian dollar denominated balance sheet, together with Australian dollar cash balances and revenues provides an effective natural hedge against the stronger currency.

In addition to foreign exchange impacts, delays from work stoppages due to community disruptions and land access, and adverse logistics and weather challenges have impacted the project cost.

Santos' 13.5% share of the total increased capital cost is approximately US\$450 million. The capital cost increase is expected to be funded in line with the Project's existing financing terms, namely 70% by debt and 30% by equity contributions from the Project co-venturers. Santos' share of the increased equity contribution is therefore approximately US\$130 million.

Santos Chief Financial Officer Andrew Seaton said that Santos had ample liquidity to fund its increased equity contribution.

"With over \$6 billion in cash and undrawn debt facilities, Santos is in a strong position to fund all of its capital programs, including its share of the PNG LNG and GLNG projects."

"Even including the higher costs, PNG LNG remains a highly robust economic project," Mr Seaton said.

The PNG LNG Project operator's press release is attached.

Ends.



PNG LNG Capacity Increased; First LNG Delivery on Track for 2014

- Project capacity increased by 5 percent to 6.9 million tonnes per year
- Project is 70 percent complete; on schedule for start-up and delivery of first LNG cargo in 2014
- Estimated Project cost has increased to \$19 billion

Port Moresby: Esso Highlands Limited (EHL), operator of the PNG LNG Project, has announced that the Project capacity has increased by 5 percent to 6.9 million tonnes per year from 6.6 million tonnes per year. The increase has been achieved through system-wide optimisations as well as some minor modifications.

Progress is being achieved across all parts of the Project. Drilling is under way on two production wells, the offshore pipeline has been completed, all major process equipment for the LNG plant and all pipe rack modules on the LNG jetty have been installed, all piling is complete and foundations are under way at the Hides Gas Conditioning Plant.

Construction progress is on track at the Komo Airfield, where laying of the runway asphalt is under way, and the movement of materials via the Highlands Highway to Hides is exceeding plan.

The Project remains on track to achieve start-up in 2014. The estimated Project cost has increased from \$15.7 billion to \$19 billion (excluding Port Moresby administration facilities and shipping). Foreign exchange is the largest single contributor of the increase and to a lesser extent, delays from work stoppages due to community disruptions and land access led to increased construction and drilling costs. Extraordinary logistics and weather challenges also increased costs. In particular, rainfall exceeded historic norms for most of the last two years.

Decie Autin, PNG LNG project executive, said: "ExxonMobil successfully operates world-class projects around the world in a broad range of technical, operational and financial conditions. The Project team was able to overcome significant delays and still maintain overall schedule through re-sequencing work under unique and very challenging circumstances. Despite the cost increase, Project economics are helped by the 5 percent increase in plant capacity and approximately 30 percent increase in commodity pricing since Project funding in 2009."

Additionally, EHL continues to assess and advance new exploration opportunities in PNG. Exploration results are being used to support future development studies that may include a potential third train.

EHL and its co-venturers are committed to Project delivery that balances safety, economic growth, environmental protection and social development.

ENDS

The PNG LNG Project is an integrated development that includes gas production and processing facilities, onshore and offshore pipelines and liquefaction facilities. Participating interests are affiliates of Exxon Mobil Corporation (including Esso Highlands Limited as operator), Oil Search Limited, National Petroleum Company Papua New Guinea, Santos Limited, JX Nippon Oil and Gas Exploration, Mineral Resources Development Company and Petromin PNG Holdings Limited. Visit pnglng.com.

