## 2001 Earnings Presentation

Fulldar Results Santos

## **Program**

- Highlights & Strategic Update
  John C Ellice-Flint, Managing Director
- Finance & Operations Review

  Don Priestley, General Manager Accounting
- Reserves

  Mark MacFarlane, Manager Exploitation
- John C Ellice-Flint, Managing Director



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- Good morning everyone and welcome to the Santos 2001 results presentation.
- The speakers we have today are:
- John Ellice-Flint, Santos' Managing Director, who will give an overview and strategic update and also speak on exploration.
- Don Priestley, Santos' General Manager Accounting who will review the financial results; and
- Mark MacFarlane, Santos' Manager Exploitation, who will speak about the recent reserves review.
- In Melbourne we have Jon Young and Rick Wilkinson who are the heads of the Central Australia and Southern Australia business units.
- In Sydney we also have:
- John Reynolds, Executive General Manager Corporate
- Wilf Lammerink who has recently joined Santos as Manager Reservoir and Production Engineering. Wilf was previously with Fletcher Energy.
- And Mark Kozned and Megan Carter from Investor Relations.
- We will take questions immediately after each presentation and also at the end.
- If you would like to ask a question:
- In Sydney, please indicate and wait to receive the microphone, and
- In Melbourne please go to the podium.
- We will also take questions over the internet
- If you would like to ask a question, please state your name and organisation.
- Following the presentation we invite you to join us for refreshments in both Melbourne and Sydney.
- I would now like to ask John Ellice-Flint to give an overview of 2001.

# **Highlights & Strategic Update**

John C Ellice-Flint Managing Director



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### 2001: Highlights and Strategic Update

- Thanks Graeme and good morning, it's great to see everyone again.
- I'm pleased to say that we are presenting our results three and half weeks earlier than last year.
- We weren't the last before and we're not quite the first now but I am **proud** to say that we have made **big strides** in reporting earlier, as well as in paying dividends earlier.
- This is all part of trying to do the **best we can** for our **shareholders**.



#### 2001: A Pivotal Year

- As we wrote in the press release, 2001 was a **pivotal** year for Santos.
- I had **three** broad goals.
- **First** to keep the ship going, that is to **maintain** the **close-to-record** performance achieved in 2000.
- **Second** to replace the engines or to **transform** the Company so that it can travel faster in the future.
- And thirdly, to do this while improving the returns to the passengers, our shareholders.

## **Financial & Operational Performance**

	2001	2000	1999
NPAT (\$m)	446.0	487.0	219.0
OpCF (\$m)	692.0	1,023.0	530.0
Production (mmboe)	55.7	56.0	49.2
ROACE (%)	14.1	16.7	8.1
Gearing (%)	39.0	37.5	63.3

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#### **Financial & Operational Performance**

- This slide shows the financial scorecard.
- While the 2001 results were generally down on 2000, 2000 was an exceptional year.
- 2001 Earnings were 8.5% below the 2000 record but twice the 1999 level. As you know, a large part of the reduction in earnings in 2001 reflected our decision to review reserves.
- **Operating cash flow** is affected by the timing of tax payments but still **remains strong**.
- Production was close to the previous year's record.
- ROACE was in healthy double digits.
- Gearing was kept at virtually the same level as at the end of 2000.

<ul> <li>□ Clear strategy</li> <li>□ New appointments</li> <li>□ New organisation structure</li> </ul>	
Productivity and costs	
Performance management system	
Reserves review	
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#### **Transforming the Company**

- My second goal was to transform the Company so that we can grow faster in the future.
- We have made progress on a number of fronts.
- We have a **clear strategy**.
- We have a **new** and **experienced management team**.
- We have a **new organisation structure** designed around our major customers and profit drivers.
- We have a program underway to reduce costs.
- We are in the process of implementing a comprehensive **performance management system**.
- We now have our **reserves** in **decent shape**.
- I was disappointed by the outcome of the reserves review but there were some positives.
- We now have a reserves booking process which sets a baseline for performance improvement. It allows us to allocate capital and manpower more effectively.
- We have identified a list of opportunities with future potential.
- We have also established an ongoing internal and external audit review process.

### **Shareholder Focus**

#### **Share Buy-back**

- Distributed \$250m of cash to shareholders
- \$143m (23c per share) classed as fully-franked dividend for Australian tax payers
- Three times over-subscribed

#### **Convertible Preference Shares**

- \$250m plus over-subscription of \$100m
- Fully franked return
- More than twice over-subscribed, 78% allocated to existing shareholders

TSR 10% capital and dividends, 14% including Buy-back



#### **Shareholder Focus**

- My third goal was to provide immediate value for our shareholders.
- Due to our strong profitability over the last two years we have had rapidly growing **franking credits**.
- During the last quarter we implemented a \$250 million share buy-back, which was funded by the issue of converting preference shares.
- The buy-back included \$143 million dollars or 23 cents a share classed as a fully franked dividend for Australian taxpayers.
- There was strong demand for the buy-back which was three times oversubscribed.
- There was also strong demand for the preference shares, which are trading at a **premium** of 8%.
- The initiatives were positive for shareholders and for the Company in reducing the number of shares on issue and the cost of capital.
- In the year to the end of January 2002 Santos gained over 12,000 new shareholders, an increase of 16%.
- We also delivered **Total Shareholder Returns** of **10%** before adjusting for the buy-back and **14%** after including the dividend component of the buy back.

## **Improving Exploration**

- Mean resource of 67 mmboe discovered, twice 2000
- 52% success rate
- Main discoveries:
  - Oyong
  - Wellington
  - Crows Nest
  - Corowa
  - Henderson
- In 2002 we are aiming to deliver twice the mean resource discovered in 2001



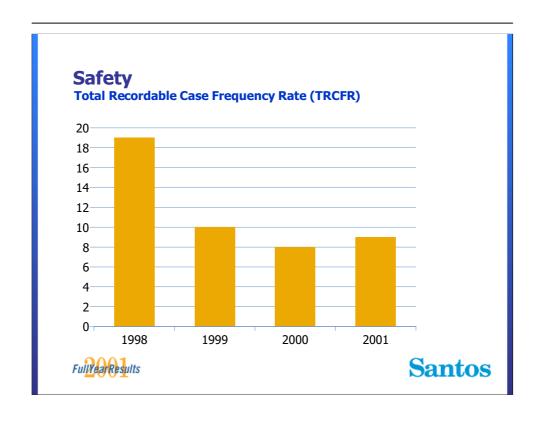


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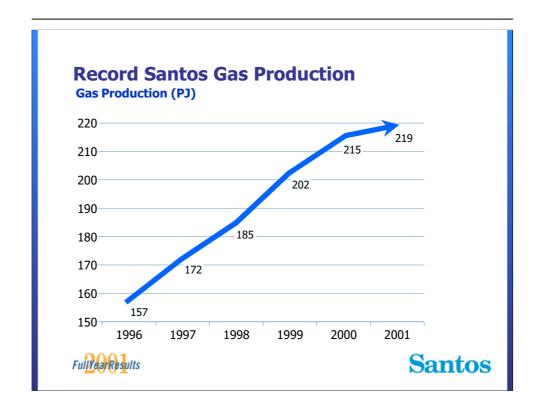
#### **Improving Exploration**

- When we announced the strategy in May, we identified four drivers of future growth: exploration, gas commercialisation, production optimisation and acquisitions.
- I will say more about exploration at the end of the presentation. However, generally we had a **better year** from exploration in 2001.
- We discovered total mean resources of 67 million barrels of oil equivalent.
- This is **twice** the level discovered in 2000. At the same time we have been conservative in reserve bookings, booking total 2P reserves of 26 mmboe.
- As new discoveries are transformed into 1P and 2P reserves, we expect to see a reduction in finding and development costs.
- In 2002 we are aiming to deliver twice the mean resource discovered in 2001.



#### **Safety**

- Along with financial and operational performance, safety is also a critical factor in assessing a company's results. We are prepared to risk dollars but not people.
- In 2001 Santos' Total Recordable Case Frequency Rate was 9 incidents per million hours worked. This is a slight increase compared with 2000.
- While safety performance in 2001 was affected by the Moomba Incident in June, Santos' performance has improved in recent years and is pushing top quartile for the Australian oil and gas industry.
- As a result of the Moomba Incident we have accelerated our audit program and audits planned to be undertaken over the next three years have been brought forward.
- During 2002 further initiatives will be implemented to provide for continuous improvement in this important aspect of our business.



#### **Record Santos Gas Production**

- Turning to gas commercialisation, Santos **produced a record** 219 petajoules of sales gas and ethane in 2001.
- The Cooper Basin maintained the record level of 262 petajoules of sales gas production set in 2000.
- Santos is continuing to increase its sales even with increased competition in New South Wales.

## **Gas Commercialisation**

#### Scotia

First production ahead of schedule and expected April 2002

**Cooper Basin**Negotiations continuing

#### **Bayu Undan**

Progress with East Timor

Moving ahead again



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#### **Gas commercialisation**

- We have a **new gas project**, the **Scotia** field in Eastern
  Queensland, due to start production in April. This is two
  months ahead of schedule. This coincides with the start of
  commissioning of CS Energy's gas fired turbine at the
  Southbank power station.
- With regard to future Cooper Basin contracts, discussions are continuing with a number of potential customers. The reserves review has provided greater certainty for these negotiations.
- There has been good news on Bayu-Undan with progress between our operator Phillips and the East Timorese on fiscal terms for the project. These terms are still subject to agreement with the Australian Government.
- On the PNG Gas Project. We are genuinely pleased to see progress being made, even though we have not signed the new MOU for gas marketing. We weren't willing to commit on terms where as a minority holder, we had no say in the marketing of the project.
- We continue to actively work all gas opportunities and the new organisation structure has an explicit customer focus.

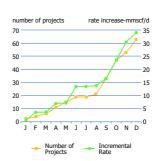
## **Production Optimisation**

#### 2001 Business Impact:

- Achieved 50% to 70% lower costs than conventional development program
- Delivered ~1 PJ incremental production in 2001
- Increased optimisation effort after acceleration of Integrated Field Review program in August

#### 2002 Business Impact:

- Optimisation projects to produce additional net 5PJ at 25% to 50% delivery cost of conventional program
- Multi-disciplined team established solely focussing on increasing production from existing asset base
- Project 2002 capex savings of \$20 to \$30 million





#### **Production Optimisation**

- During the year we have spoken a lot about production optimisation, most recently at the Investor Conference in December.
- The major benefits of production optimisation have been in reducing the rate of Cooper Basin decline and reducing incremental cost.
- Our production optimisation initiated will allow Santos to bring gas on faster and at a lower cost than drilling.
- For example, in 2001 we were able to produce one extra petajoule for 50-70% of the cost of drilling. In 2002 we expect to be able to produce an additional 5 petajoules of gas achieving similar cost reductions.
- We are getting more for less.

## **Acquisitions & Portfolio Management**

#### **Evans Shoal**

- Significantly increased Northern Australia gas interests
- Consistent with long-term Northern Australia gas strategy
- Evaluating field appraisal appraisal and commercialisation option

#### **Runnells**

 Runnells 6 due to spud 16 February

More active portfolio management

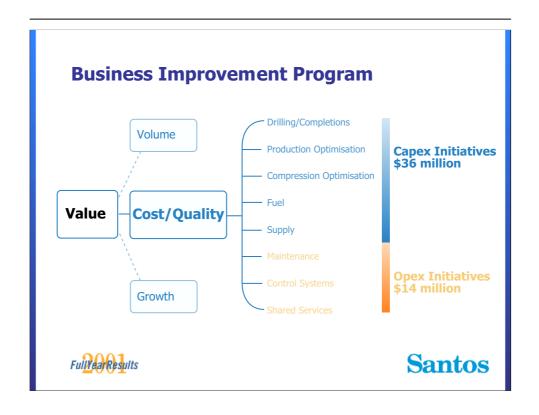




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#### **Acquisition and Portfolio Management**

- Acquisitions were a hot topic for the market and media during 2001.
- However acquisition prices have generally been inflated over the last year and we would hope to see improved opportunities as the low oil price environment pulls back valuations.
- In 2001 we completed two modest size acquisitions, Natural Gas Australia and an increased interest in the Runnells field.
- The Natural Gas Australia acquisition has significantly increased our gas interests in Northern Australia to approximately 4 trillion cubic feet.
- We are currently reviewing field appraisal strategies and commercialisation options, and continue discussions with our joint venture partners on a cooperative development of the Timor Sea gas fields.
- The Runnells acquisition strengthens our US interests and the next well, Runnells - 6, is due to spud shortly.
- We will continue to actively review acquisition opportunities and we have the capacity to do something quite material.



#### **Business Improvement Program**

- We have a strategy in place to reduce costs, capital and operating, by at least \$50 million dollars Australian.
- We have identified the improvement areas that will yield the target savings. Each project has a project manager assigned who is specifically accountable to a strict delivery timetable.
- The projects and savings to be carried out and achieved by 2003 are set out on the slide and amount at \$50 million dollars Australian.
- In addition to the projects identified, we are examining all our overheads and reviewing our overall headcount.

## **2001 Laying The Foundations For Growth**

- → We know where we are starting from
- → We know where we are going
- → We are determined to get there

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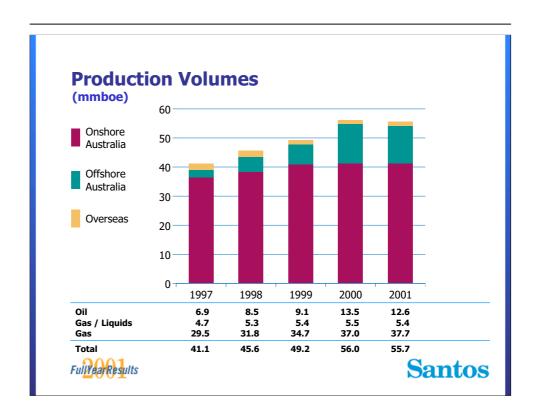
#### **Laying the Foundations for Growth**

- In summary 2001 was a year in which Santos laid the foundations for future growth.
- We **reviewed our assets and operations**, most importantly we completed the **reserves review**.
- In May we put in place a strategy to achieve growth and increase shareholder value.
- We have restructured the organisation around the themes of Volume, Growth and Costs. Importantly the Cooper Basin is now being managed as one business unit.
- We have a **new management team** focussed on delivering growth.
- In summary we now have the tools to grow Santos and achieve the benchmarks set at the May 2001 Annual General Meeting.
- That concludes my highlights and strategic update presentation. Graeme will now introduce Don Priestley.

# Finance & Operations Review

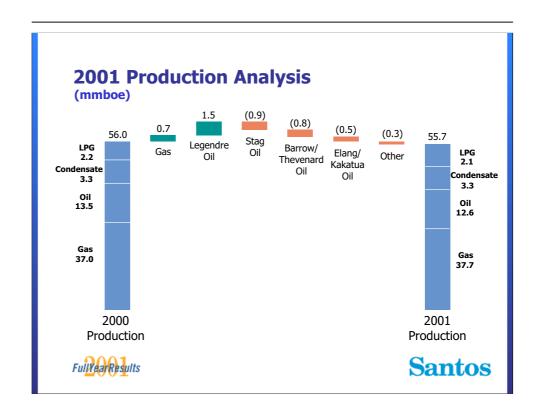
**Don Priestley**General Manager Accounting





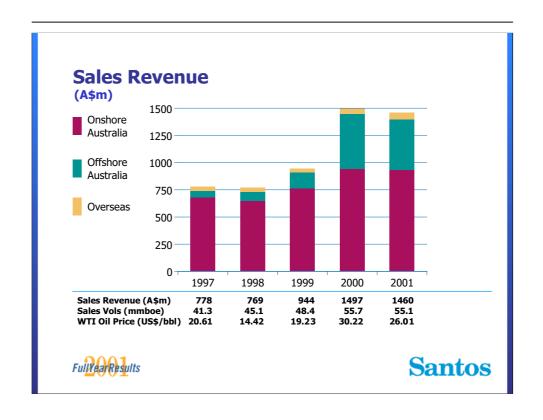
#### **Production Volumes (MMBOE)**

- I will start off with production as it is a key driver of our financial outcomes.
- This slide reflects that, in recent years, production growth has been mainly offshore Australia (as indicated by the green bars) where increases in oil production came from Stag, Barrow / Thevenard Island, Elang / Kakatua oil fields and, in 2001, from the Legendre oil field.
- In 2001 production totalled 55.7 MMBOES slightly lower than 2000 record volumes of 56.0 MMBOES.



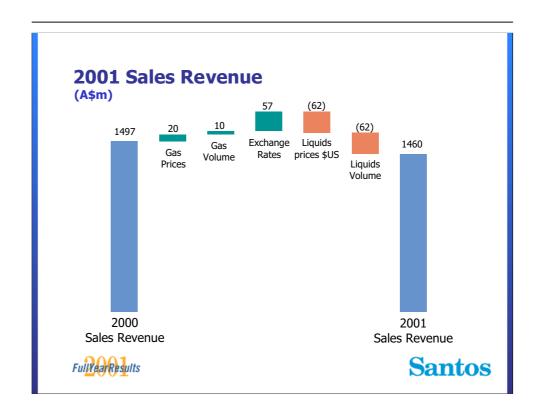
#### **2001 Production Analysis**

- In 2001, gas production grew in the Otway Basin, Carnarvon Basin (East Spar) and in the USA. Cooper Basin gas production of 165.7 PJ was consistent with 2000 production.
- Legendre oil field commenced production in May and contributed 1.5 MMBBLS of production in 2001.
- Production from other offshore oil fields was impacted by various production problems:
  - —Stag oil field production was impacted by shutdowns for major maintenance and cyclones and was impacted by the loss of 10H and 6H wells in latter part of year. A workover of the Stag 6H well is scheduled for this month.
  - —Thevenard Island production was restricted by the need to shut in the Roller and Skate fields whilst sections of the pipeline to Thevenard Island were replaced. The pipeline was recommissioned in May resulting in a loss of four months production in 2001.
  - —Elang 2 oil well has been shut in since mid-August due to a heat exchanger problem and came back on stream early January 2002.



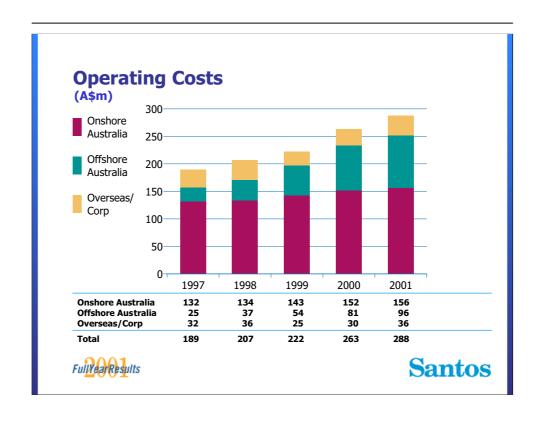
#### Sales Revenue (A\$m)

- Sales revenue has nearly doubled over the 5 year period 1997-2001 due to higher volumes and, in the past two years, higher liquids prices.
- It should be noted that the 2001 sales volumes and sales revenue were reduced as a result of the Moomba pump station incident which occurred in the middle of last year.
- Lost sales volumes 700 KBOES and sales revenues of \$37
  million were, in part, covered by insurance and \$26.8 million of
  insurance proceeds are reported as 'other' revenue in these
  2001 results.



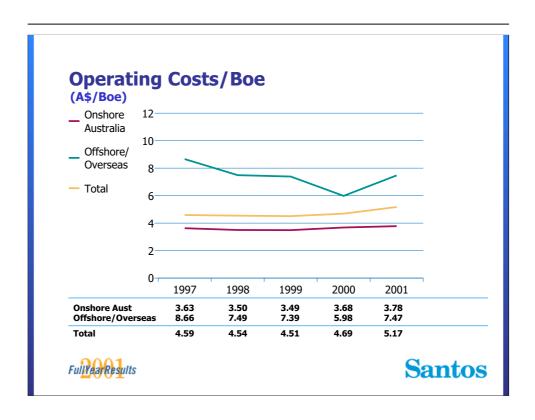
## 2001 Sales Revenue

- 2001 sales revenues were 2.5% lower than the record sales result reported in 2000.
- Slightly higher gas prices and volumes and a weaker Australian dollar were positive contributors in 2001.
- A decline in oil prices and offshore oil production as well the lost sales resulting from the Moomba incident contributed to the decline.



## **Operating Costs (A\$m)**

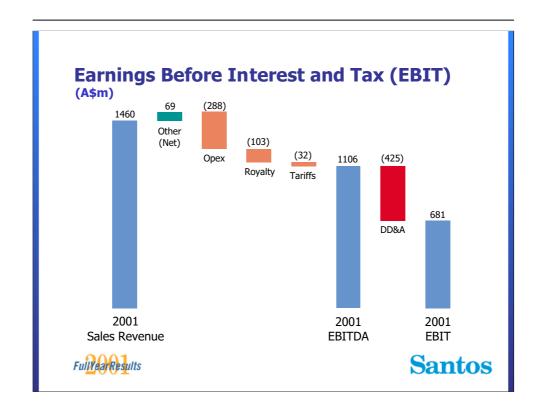
- 2001 operating costs are \$25 million higher than the previous year.
- Onshore Australia operating costs increased in 2001 by \$4 million. Without the incremental costs arising from the Moomba pump station incident, onshore costs would have been \$2 million lower than in the prior year.
- The growth in operating costs over the past 5 years has been greatest in our offshore regions where cost of operating is higher; and where, in recent times, we have enjoyed the greatest increases in production.
- Operating costs in our offshore provinces were \$15 million higher in 2001 and principally reflect the cost of operating the Legendre oil field which commenced production in May (\$13.5 million).



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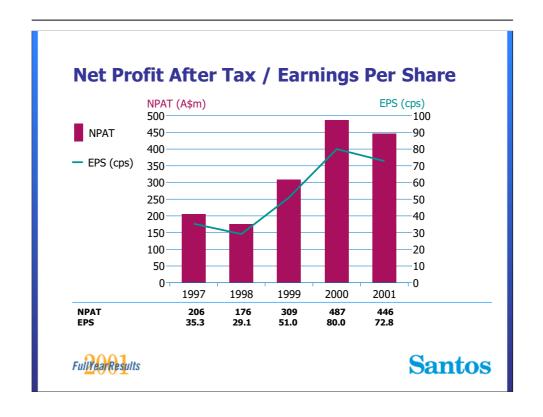
## **Operating Costs / BOE**

- In respect to its onshore operations, Santos continues to be a top quartile 'low cost' operator.
- Operating costs in the onshore regions, which are predominantly operated by Santos, have averaged under A\$4/BOE over the past 5 years.
- As noted previously, much of our production growth in recent years has been in offshore where operating costs are higher. With the additional offshore operating costs in 2001 attributable to the Legendre start up and a net reduction in offshore production (Barrow / Thevenard, Stag, Elang), operating costs on a unit of production basis have increased from \$5.98/BOE in 2000 to \$7.47/BOE in 2001.



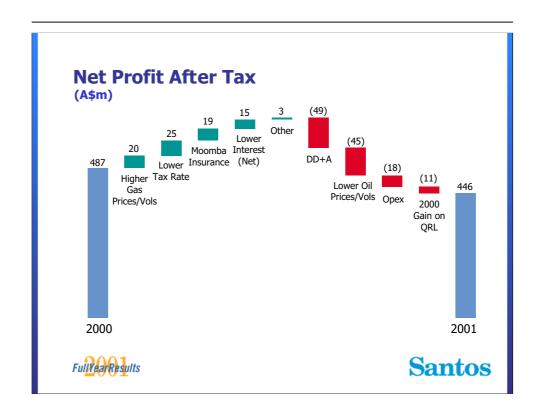
## **Earnings Before Interest and Tax (EBIT)**

- Starting with sales revenue of \$1,460 million as indicated by the blue bar on the left hand side of the slide and after adding other revenue and deducting operating costs, royalties and tariffs, we end up with Earnings Before Interest and Tax Depreciation and Amortisation of \$1,106 million.
- EBITDA of \$1,106 million is approximately \$50 million lower than the result reported in 2000.
- By far the largest charge to the profit in 2001 was the Depreciation, Depletion and Amortisation (DD&A) charge of \$425 million.
- DD&A is a 'non-cash' charge to the profit account and represents the amortisation (or 'depletion') of capitalised exploration and development costs on a unit of production basis as proved and probable (2P) reserves are produced. An estimate of future development costs is included in the depletion calculation for undeveloped 2P reserves.
- The principle factors which have resulted in a \$70 million increase in DD&A in 2001 include:
  - —the 18% reduction in 2P reserves in 2001; and to a lesser extent,
  - ─a higher cost base.
- After deducting DD&A, Earnings Before Interest and Tax in 2001 was \$681 million.



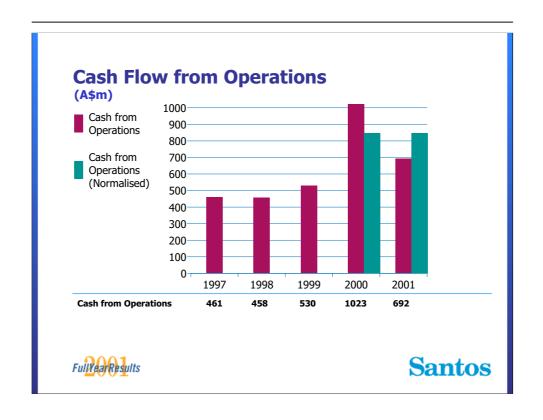
## Net Profit After Tax (\$m) / Earnings Per Share (¢)

- Net Profit After Tax (NPAT) for 2001 is \$446 million. This is the second highest profit result in the Company's 48 year history.
- Earnings Per Share (EPS) has more than doubled over the past 5 years from 35.3 CPS in 1997 to 72.8 CPS in 2001.



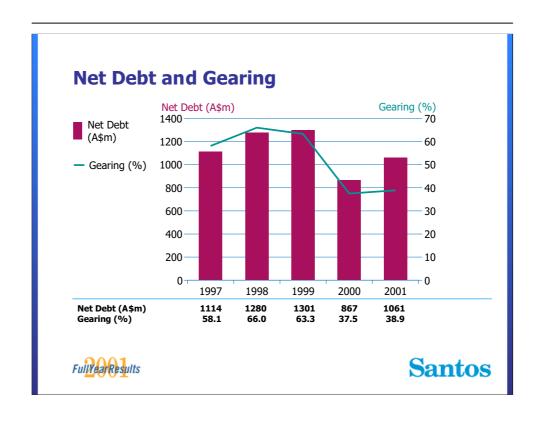
## **Net Profit After Tax (A\$m)**

- The 2001 NPAT of \$446 million is 8.5% lower than the 2000 record profit result of \$487 million.
- Higher gas revenues and lower tax and interest bills contributed to the 2001 results. These gains were more than offset by higher DD&A charges and operating costs.
- Lower oil prices and liquids sales volumes were partly offset by the proceeds from the insurance claim.
- The 2000 results were also favourably impacted by the gain on sale of our QRL holdings in that year.



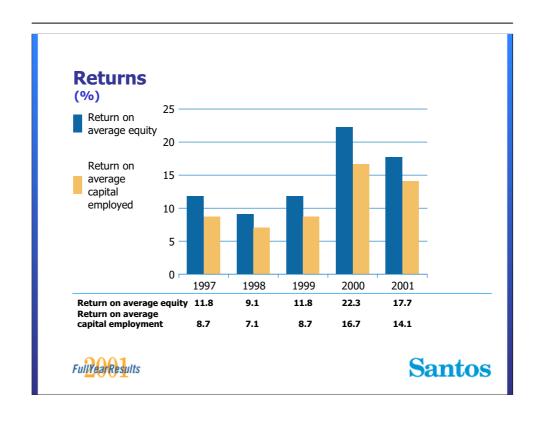
## **Cash Flow from Operations (\$m)**

- Cash flow from operations in 2001 is \$692 million as compared to \$1,023 million in 2000. The 2001 cash flow was impacted by the timing of 2000 income tax liability (paid in 2001) and, to a lesser extent, the timing of collection of receivables and settlement of oil hedge losses in respect to 2000.
- If cash flow from operations were 'normalised' or adjusted for these major timing differences, the 2001 cash flow would be approximately the same as the 'normalised' 2000 cash flow.



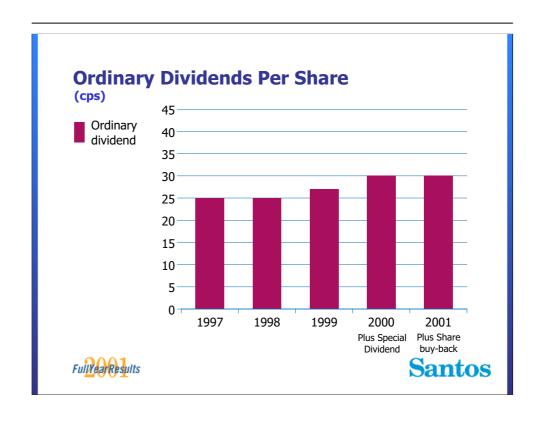
## **Net Debt and Gearing**

- At year end of 2001, net debt was \$1061 million, up from \$867 million at the end of the previous year.
- The increase in net debt in 2001 reflects the timing issues regarding operating cash flow; the acquisitions of the Runnells assets in the USA and NGA's interest in Evans Shoal and the payment in 2001 of the 10 CPS special 2000 final dividend (\$61 million). Net debt was also impacted by the off-market buy-back of ordinary shares (\$250 million) and proceeds from issue of preference shares (\$350 million).
- Gearing (net debt / equity) increased slightly from 37.5% at the beginning of the year to 38.9% at year end 2001.
- At year end 2001, Santos has significant capacity to fund large developments or to make sizeable acquisition in the future.



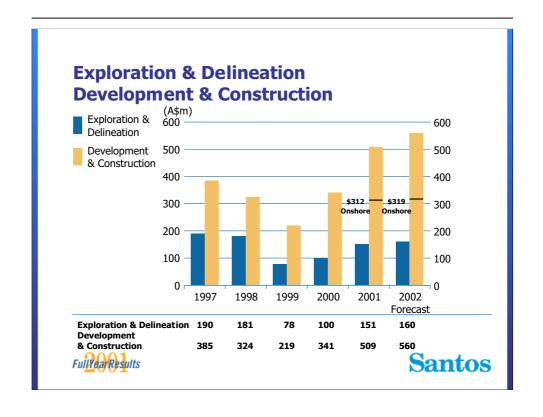
## **Returns**

- Returns on average equity in 2001 were 17.7%. While
  historically high, these returns are lower than for year 2000 as
  a result of the slightly lower NPAT and higher equity in 2001.
- Return on average capital employed was 14.1% as compared to 16.7% in 2000.



## **Dividends per Share**

- The Directors declared a final 2001 ordinary dividend of 15 CPS bringing the total 2001 dividend to 30 CPS.
- In addition to the ordinary dividends of 30 CPS, Santos undertook a \$250 million share buy-back in 2001 resulting in distributions of retaining earnings and franking credits of \$143 million (or the equivalent of 23 CPS).



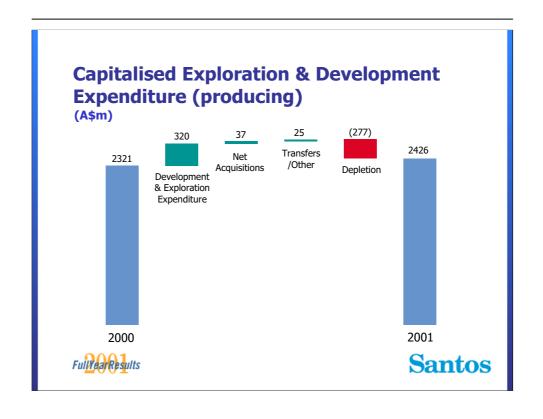
## **Exploration and Delineation, Development and Construction**

- Now I would like to turn to the capital programmes.
- Santos' exploration and delineation expenditure totalled \$151 million in 2001. This programme comprised:
  - -50 wells
  - -3672 km 2D seismic
  - -3891 km<sup>2</sup> 3D seismic
- The geographic spend of drilling expenditure was roughly:
  - —40% onshore Australia
  - -30% South-East Asia
  - -20% offshore Australia
  - -10% USA
- The indicative programme for 2002 includes an exploration and delineation programme totalling \$160 million.
- J Ellice-Flint will discuss exploration plans for this year a little later in the presentation.
- The development and construction expenditure in 2001 totalled \$509 million. Much of the expenditure is denominated in US dollars and costs have increased in recent years as a result of a weakening Australian dollar.
- The major development and construction projects in 2001 included:
- \$107 million Bayu-Undan liquids project which is planned to be on-stream in 2004
- \$191 million Cooper Basin gas development
- \$32 million Scotia gas plant and development for production start-up in April 2002
- \$22 million Legendre oil project which was commissioned in May 2001
- \$22 million USA field developments
- \$11 million Roller-Skate pipeline replacement which was commissioned in May 2001

Development & Construction (A\$m)  • Development	2002 Key	Project foreca
- Offshore/Overseas		246
<ul> <li>Bayu/Undan liquids project</li> </ul>	158	
<ul> <li>Carnarvon Basin Wells (East Spar/Stag/Barrow)</li> </ul>	27	
<ul> <li>USA field developments</li> </ul>	30	
- Other	31	
- Onshore Australia		190
<ul> <li>Cooper Basin Gas</li> </ul>	159	
<ul> <li>Cooper Basin Oil</li> </ul>	15	
<ul> <li>East Qld Gas</li> </ul>	11	
<ul><li>Otway Gas</li></ul>	5	
Construction & fixed assets		93
<ul> <li>(Ballera 2nd DPCU, Moomba Plant Controls, Scotia Compre</li> </ul>	ession etc)	
IT Capital		31

## 2002 Key Projects (Forecast)

- The forecast of development and construction expenditure for 2002 is \$560 million.
- The key 2002 projects are listed on this slide and include:
  - —The Bayu-Undan liquids project of \$158 million (\$107 million 2001).
  - —The Cooper Basin gas field development programme of \$159 million (\$191 million 2001).
  - —Construction and fixed asset expenditure of \$93 million which includes a second DPCU at Ballera; upgrade of the Moomba plant controls, and Scotia compression and separation facilities.
  - —T capital expenditure of \$31 million.



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## **Capitalised Exploration and Development Expenditure**

- The capitalised exploration and development expenditure in producing regions amounts to \$2,426 million at year-end 2001

   an increase of \$105 million over the course of last year.
- \$320 million of exploration and development expenditure in producing areas was capitalised and \$277 million was amortised (or depleted) during the year.
- The net acquisition of \$37 million reflects the repositioning of Santos USA portfolio and includes the purchase of the Runnels prospects in September last year and the sale of some Gulf of Mexico assets.

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## **Introduction of Mark MacFarlane**

• I will now hand you back to Graeme who will introduce Mark MacFarlane.

# **Reserves Mark MacFarlane** Manager Exploitation FullYearResults **Santos**

# **Discussion Outline**

- Reserves Review
  - Objectives
  - Process
- Key Outcomes from Reserves Review
- Reserves Strategy The Future

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### **Discussion Outline**

- Good morning. My name is Mark Macfarlane. I am the Gas Exploitation Manager of the Central Australian Business Unit.
- The reason why I'm talking to you today is that prior to the re-organisation of Santos, I was the Manager Production and Reservoir Engineering and was involved in the Santos wide Reserves Review, the results of which were released last month.
- What I'd like to do today is give you a brief over-view of the objectives of the 2001 Reserves review, the process we undertook and the results of the review.
- I will then conclude by giving you a feel of how our future reserves strategy fits with the company's vision.

# **Reserves Review**

**Objectives** 

- Upgrade Santos Reserves Reporting to international standards
- Provide confidence in reserves
- Provide a strong base for performance management

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## **Reserves Review - Objectives**

- For Santos to become a top quartile E&P company in terms of production growth, reserve replacement, F&D costs and ultimately share-holder return it is necessary to clearly understand the base building blocks of value, one of which is our Reserves.
- The 2001 reserves review was an integral part of getting this process going and had the specific objectives of:
  - Improving our understanding of the asset base, which in turn leads to improved Field Management and valueadding opportunity identification
  - Fully documenting Field Depletion Plans for every field and documenting the 1P, 2P and 3P reserves as well as Contingent Resources
  - Making all of our asset base consistent with World's Best practice for reserves bookings, specifically, SPE and WPC definitions.
- With all of this now in place, and fully owned by all staff, we have a strong base against which we can manage our assets and be held accountable for our performance.

## **Reserves Review**

## **Process**

- 460 fields evaluated by multi-disciplinary teams
- International standards set
- Internal and external validation of standards
- Development and growth opportunities identified & documented

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#### **Reserves Review - Process**

- The process started in June 2000 when, for the first time, we issued high quality Reserves Guidelines in the organisation. These guidelines are fully consistent with the SPE/WPC definitions and take into account both technical and commercial considerations.
- This was a massive company-wide task that we had originally envisaged taking two and a half years to complete. However, when John Ellice-flint joined the company, he clearly articulated the need to complete the task by the end of 2001. We achieved this, but in no way did we compromise on quality. We leveraged off the Integrated Reservoir Studies that were ongoing, and drew on both internal and external expertise to ensure we had robust 1P, 2P and 3P reserves by year-end.
- To ensure consistency of process and quality across the Corporation, a small, high level, independent, internal reserve review team was created to manage the project.
- In addition, both the process and results were validated by an independent internationally renowned reserves expert, Gaffney Cline & Associates
- It's worth re-iterating that the objective this review was not to merely produce a number, but to identify and document development, delineation and exploration opportunities to add value to the Corporation. Simply put, to improve our field management.

# **Reserves Review**

	Re			eserves - mmboe Santos Share			
Reserves Category	YE 2000	Production	Revisions	Expl/Appr /Acq Adds	YE 2001		
Proved (1P)	N/A	-56	355	17	316		
Proved & Probable (2P)	921	-56	-169	28	724		
Proved & Probable & Possible (3P)	1260	-56	169	105	1478		
Contingent Resource (Best Estimate)	687	-	294	474	1190		

### **Notes**

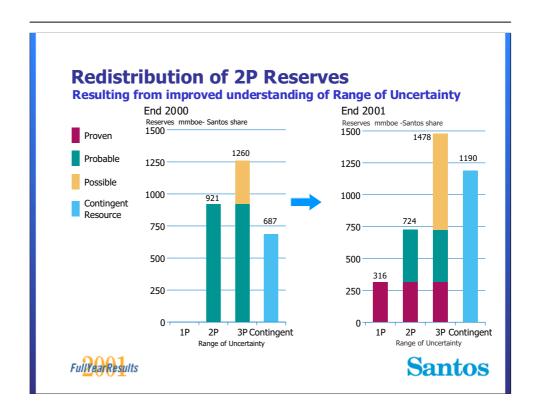
- 1P: Estimate of 316 mmboe (not previously estimated)
- 2P: Revised down by 169 mmboe (-18%)
- 3P: Increased by 218 mmboe (+17%)
- Contingent: Increased by 503 mmboe (+73%)



**Santos** 

### **Reserves Review**

- This slide summarises the results of the 2001 reserves review
- You will note that for the first time we are reporting the full spectrum of reserves and resources from 1P through to 3P and Contingent Resources
- Reserves by definition are economic.
- Proved Reserves are those reserves that, to a high degree of certainty (90% confidence) are recoverable, in other words they are Low Risk
- Probable Reserves are those reserves that are more likely than not to be recoverable, in other words have at least a 50% probability that the recovered reserves will exceed the estimate. In other words, we expect to recover the 2P reserve.
- Possible reserves are reserves that represent upside potential.
- Contingent Resources are discovered accumulations that are technically and/or commercially immature but which could mature with more data, improved technology or new gas contracts.
- I will discuss the key outcomes over the next couple of slides, but it's important to note that generally, 2P reserves have not been written off as a results of this review. Rather, they have been transferred to 3P to reflect the increased uncertainty associated with the technical complexity of the assets, coupled with the low gas price environment



### **Redistribution of 2P Reserves**

- This chart illustrates the redistribution of Santos' reserve & discovered resource base
- As you can see the 2P reserve (which Santos has historically reported) has been revised from 921 mmboe to 724 mmboe
- Of the 2P volume, 316 mmboe has been classified as Proved (low risk) reserve
- You will also note that 3P and Contingent Resources have increased substantially, due in part to the reclassification of the 2P reserves
- It is of note that of the 460 fields reviewed, of which 360 are in the Cooper Basin, 30% at a 2P level were revised down, 50% had minimal change and 20% increased.
- As I mentioned right at the beginning of this presentation, we now have confidence in the base building blocks that drive Reservoir Management and the Conveyor Belt of value.

# **Proved and Probable Hydrocarbon Reserves**

	Sales Gas (incl. Ethane) PJ	Crude Oil million barrels	Condensate million barrels	LPG '000 tonnes	Total mmboe
Estimated Reserves at 31/12/00	4084	97	81	5505	921
2001 Production	-219	-13	-3	-258	-56
2001 Revisions	-859	4	-17	-1011	-169
2001 Exploration Addit	ions 94	1	1	52	19
Appraisal existing field	<b>s</b> 29	0	1	92	7
Acquisitions/Divestme	<b>nts</b> 12	0	0	0	2
Estimated Reserves at 31/12/01	3142	88	62	4379	724

### **Notes**

- Major negative revisions in gas fields (gas & gas/liquids)
- Positive revisions in oil fields



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# **Proved & Probable Hydrocarbon Reserves**

- I won't dwell on this chart. Suffice to say it is the chart that all
  of you are used to seeing in our Annual Report and provides a
  more detailed breakdown of the reserves changes at the 2P
  level.
- Important points to note are that the negative revisions were mainly in the gas & gas/liquids category, largely in the Cooper Basin, with oil reserves increasing by 4 mmboe.

# **Issues Impacting Reserves**

# Data

Drilling results, seismic, technical studies, plus production performance significantly impacted YE01 Reserves

# Technology

Best technology not able to maintain previous reserves. Continued improvements in technology provides opportunity to recoup reserves

### Costs

Cooper Basin becoming more mature

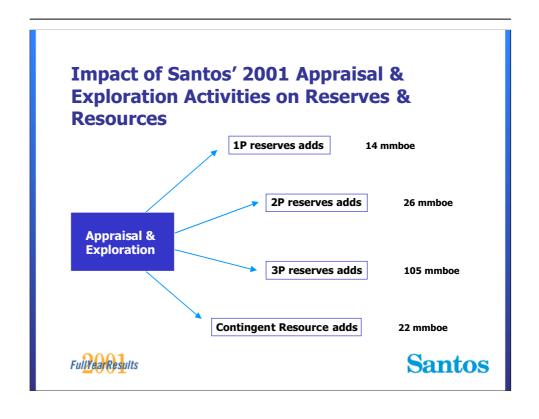
### Price

Higher gas prices will result in increased 2P reserve



### **Issues Impacting Reserves**

- Clearly, a number of factors impact on the ultimate recovery from oil and gas fields. This chart provides a brief review of some of those factors:
- New data provides a higher level of accuracy in reserves estimation, whether it be from drilling new wells or the result of detailed studies
- In the last two years there has been a marked improvement in the integration of geoscience, engineering and production analyses for deriving the range of estimated ultimate recovery. The Integrated Reservoir Studies that we've spoken about previously are an example of this.
- Technological advances provide mechanisms to improve ultimate recovery and commerciality of hydrocarbon resources by increasing both Recovery Factor and Deliverability. Technology advances will enable additional reserves to be recovered. For example, we can now frac wells which were beyond our capability only a year ago. Juno & Hera in Queensland are examples of this, where we were able to substantially increase the rate from these fields through fracture stimulation.
- Costs are a key issue in a mature area such as the Cooper Basin where margins have decreased. Santos continues to relentlessly drive cost savings programs in the management of its fields.
- As I said before, Reserves by definition are commercial. We have 1750 PJ of uncontracted 2P gas available, but only once we satisfy ourselves that the margins are appropriate.



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# Impact of Santos' 2001 Appraisal & Exploration Activities on Reserves & Resources

- This slide shows the benefit of 2001's Appraisal and Exploration program.
- You can see that Exploration and Appraisal have added 14 mmboe Proved Reserves and 26 mmboe of 2P Reserves.
- However, importantly 105 mmboe of upside potential, represented by the 3P reserves were added.
- In addition, the 22 mmboe of Contingent Resource is currently being appraised to establish commercial viability of development
- It is of note that the acquisition of Evans Shoal in 2001 also added 452 mmboe to the Contingent Resource category.

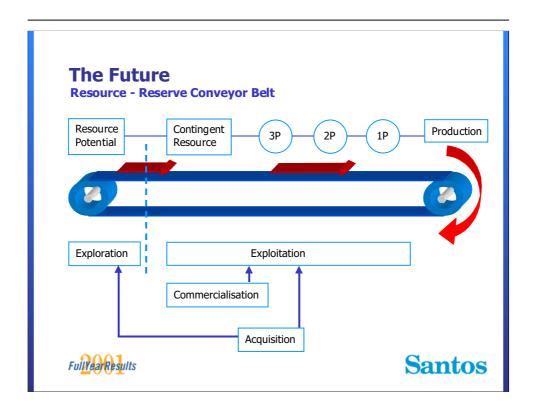
# **Key Outcomes from Reserves Review**

- Santos' reserves reporting consistent with international standards and top quartile E&P companies
- Contingent Resources
- Established the basis for improved field management so that capital and human resources can be allocated more effectively
- Provides a better handle on asset base for portfolio optimisation



# **Key Outcomes from Reserves Review**

- We have just completed a rigorous review of our reserves as well as the processes we use to manage our assets.
- The results of our efforts have improved our understanding of the range of uncertainty in our asset base, with 1P, 2P and 3P reserves documented.
- However, because of this improved understanding, it required that some 2P reserves be transferred to the 3P category.
- But, because we now have the right processes in place, with the conveyor belt an integral part of Business Unit, Department, Team and each individual's Performance Management, we can now move forward and extract value from our portfolio of opportunities.



### The Future

- Finally, the Santos reorganisation has rebuilt the Corporation around the core business drivers of a top quartile E&P company. Each Business Unit, Department, Team and Individual has clearly defined KPI's to facilitate measurement and management of each stage of the process. For example:
  - The reserves process will continue to be managed through a high level Reserves Management team who will continue to utilise 3rd party expertise to maintain the integrity of our asset base
  - The Exploration groups are purely focused on value adding reserves growth
  - The Gas commercialisation groups are driven by monetising our Contingent Resources
  - The Exploitation groups are focused on maturing reserves through to production at the lowest unit cost
  - The Production Optimisation teams sole purpose is to maximise production from 1P developed reserves
  - And the drilling/completions team role in life is to provide technical excellence at the lowest cost
- I hope I have left you with a good understanding of the processes we have implemented to ensure that our Reserves are not only robust, but that we are now are able to exploit them to maximise Total Shareholder Returns.

# **Exploration & Close**

**John C Ellice-Flint** Managing Director

**Santos** 

FullyearResults

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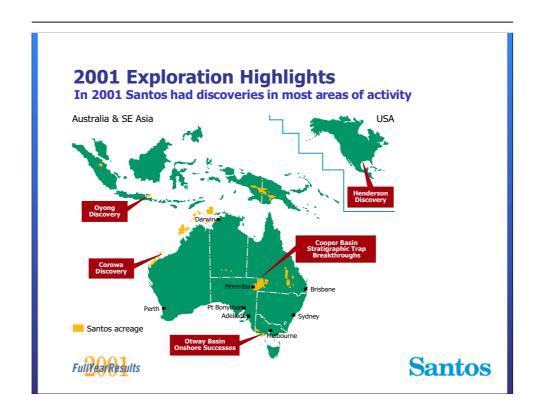
# **2001 Exploration Achievements**

- Discoveries in all areas of activity
- Spent \$151m with overall 52% success rate
- Booked 2P reserve of 25.9 mmboe and discovered a mean resource of 67 mmboe (subject to further appraisal)
- Re-engineered exploration processes
- Focus on higher risk exploration prospects and new venture opportunities

Full BarResults

### **2001 Exploration Achievements**

- In Exploration we had one of our most successful programs for many years, about twice as successful as 2000.
- What was pleasing about the program was that we achieved successes in most of our operational areas
- The overall result was that we booked 2P reserves of 26 million barrels of oil equivalent and discovered mean resources of 67 million barrels of oil equivalent. These resource discoveries will be the subject of further appraisal during the coming year.
- To achieve this result we drilled 50 wells for a total expenditure of \$150 million dollars and achieved a success rate of 52%.
- We also re-engineered our exploration processes to focus on the best opportunities for the company.
- The exploration program now has a greater emphasis on higher-risk higher-reward opportunities and on pursuing new venture opportunities with the intention of improving the balance of our exploration portfolio.

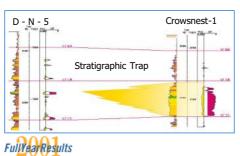


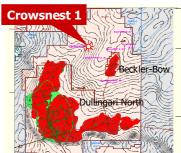
# **2001 Exploration Highlights**

- In the Cooper Basin we successfully tested two high risk stratigraphic traps, Wellington-1 in South West Queensland and the Crowsnest prospect in the South Australian sector.
- Both confirmed that potentially significant stratigraphically trapped accumulations remain to be discovered in the Cooper Basin. The Exploration program will focus on this kind of opportunity in the future.
- We made two offshore Santos operated oil discoveries; one was the Corowa well in the Carnarvon Basin. - An appraisal well is currently drilling to evaluate the size of the discovery.
- The other oil discovery was the Oyong Field in East Java.
   Appraisal drilling confirmed the potential of this field which is estimated to have around 100mm barrels of oil in place plus around 100 billion cubic feet of gas. Pre-development studies are currently underway
- We also had successful 3D based drilling campaigns in the Onshore Otway and Cooper Basins.
- In the US we had further success in the emerging Deep Frio Play with the Henderson discovery is producing at 7.5 million cubic feet per day. This was our second discovery on this trend.

# 2001 Discovery: Crowsnest 1

- Santos Interest: 60%
- Crowsnest 1 is a stratigraphically trapped gas discovery with follow up potential
- 186 feet of net pay
- Flowed gas at 5.6 mmcfd from the Upper Patchawarra
- Close to existing infrastructure





# 2001 Discovery: Crowsnest 1

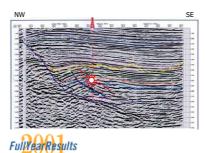
- This slide illustrates the Crowsnest discovery, one of the stratigraphic trap plays in the Cooper Basin.
- In the past exploration activity in the Cooper has focussed on conventional four way dip anticlines.
- The **Crowsnest well** was drilled on a **structural nose.** To the south east is the Beckler Bow field which is also stratigraphically trapped.
- The Crowsnest well was successful and encountered 186 feet of net pay and flowed gas at 5.6 million cubic feet per day. This discovery demonstrates that there is considerable upside in stratigraphic traps in the Cooper Basin

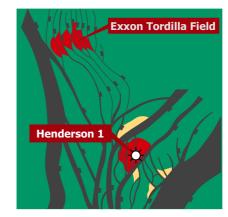
# 2001 Discovery: Henderson 1

Santos Interest: 25%Completed: August 2001

• Net Pay: 169 feet

On Line Rate: 7.5 mmcfdClose to existing infrastructure





# 2001 Discovery: Henderson 1

- The Henderson well was drilled in the Frio Play trend in South Texas.
- The well tested a deep roll-over structure above a growth fault and encountered 170 feet of net gas pay over a 1,500 foot gross interval. It has since been fracced and brought on line at 7.5 million cubic feet per day.
- We continue to build our position in this promising play.
- Our acreage position in the Frio now stands at 70 square kilometres or approximately 17,000 acres.

# **2001 New Ventures**

- Corporate International New Ventures team formed
- VIC/P44 (Otway), Madura Offshore (East Java) & Lafite Allen Dome (US) Farmins
- Northern Australia NT/01 exploration block awarded
- Gazettal blocks under review in Perth and Browse Basins, the Southern Margin and Offshore West Madura (East Java)
- Increased equity to 70% in Sole Field (Gippsland)



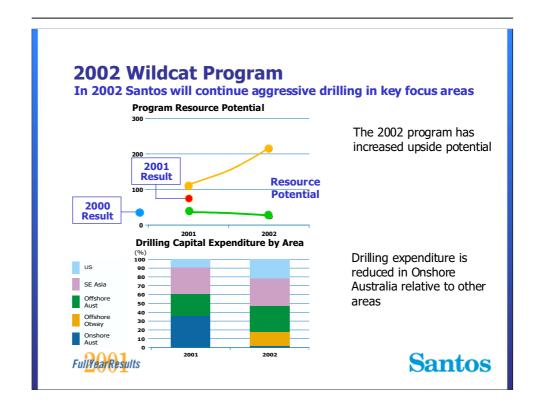
### **2001 New Ventures**

- We have taken steps to strengthen our portfolio with the formation of a small but experienced New Ventures team, which will focus on International New Ventures.
- We executed farmins during the year in the Offshore Otway, East Java and in the United States Gulf Coast. Drilling is either planned this year or already underway in these opportunities
- We were awarded a block in Northern Australia to improve our gas portfolio and we increased our interests in the Gippsland Basin
- We have already made some significant progress in improving the depth and magnitude of our exploration and production portfolios



# **2002 Exploration Program**

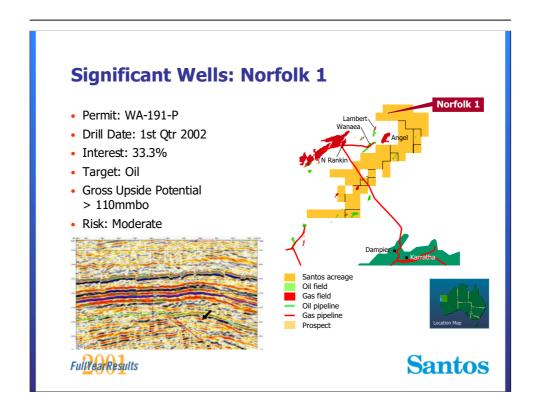
- In 2002 we plan to spend approximately \$120 million dollars to drill 17 exploration wildcat wells. We will also spend around \$40 million dollars on delineation.
- The program will focus on our highest ranked wildcat wells in value terms with an emphasis on opportunities, that can have a material impact.
- We have reduced our exploration wildcat program in the Cooper Basin but we will rebuild our portfolio there based on our recent discoveries and return to wildcat drilling later in the year or early next year.
- We will drill three wells in Eastern Queensland.
- We will drill two wells in Papua New Guinea.
- We will drill **four wells** in **Offshore West Australia** with two wells planned from the Santos operated block WA 191 P in the Carnarvon Basin.
- We will be **following up** the **Oyong success** in East Java with the **Maleo well** in the adjacent **Madura Offshore PSC**.
   This well is located in the promising Mundu Formation play fairway.
- We will test the **Casino prospect** in VIC/P44 in the Offshore Otway basin and drill **six wells in South Texas** .



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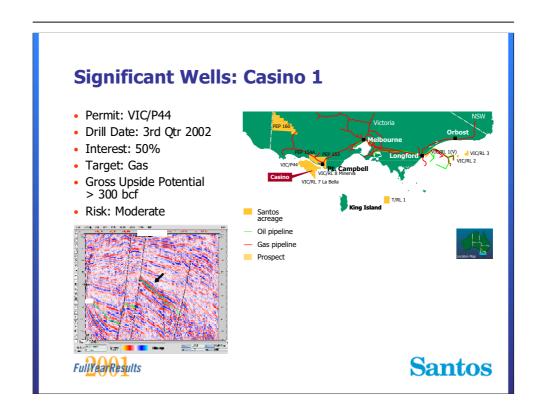
# 2002 Wildcat Program

- Santos will expose shareholders to a program with a risked upside resource potential of over 200 million barrels of oil equivalent, which reflects the higher risk higher reward profile of this years portfolio compared to last year.
- The program also reflects a geographical shift in expenditure with a higher proportion of activity outside Onshore Australia.
- I will now present some of the significant wells which Santos will participate in this year.



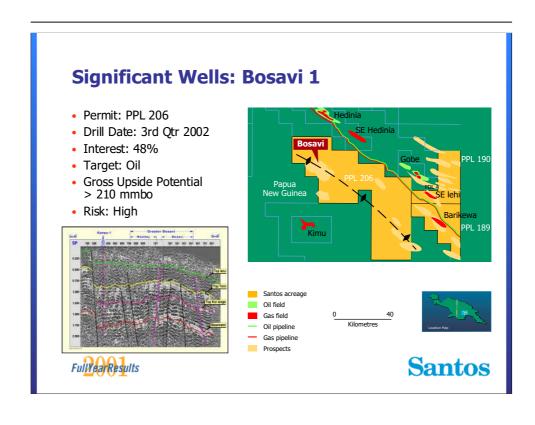
# Significant Wells: Norfolk 1

- In late March we will test the **Norfolk prospect** in the Santos operated block WA191P.
- Two previous wells in the block, Pitcairn and Mutineer had encouraging oil shows and we believe that the block could lie on a play fairway on trend with the Lambert and Wanaea fields to the south.
- The well is considered to be moderate risk and will address an opportunity with potential upside of more than 100 million barrels of oil.



# Significant Wells: Casino 1

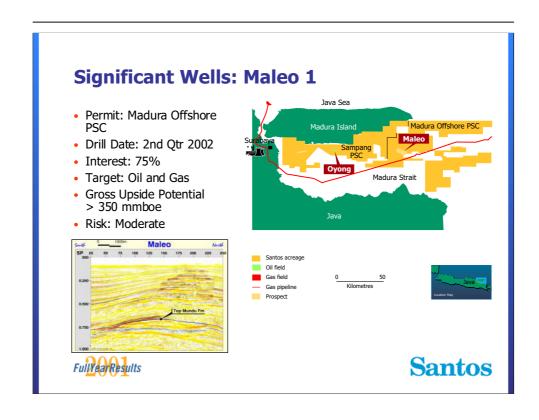
- In the Offshore Otway Basin we plan to drill the Casino prospect, which will test the Waarre sandstone play which we have successfully explored in the onshore section of the Basin.
- The well will address an opportunity with **potential upside** of **more than 300 billion cubic feet** which **is close to infrastructure** and a **growing gas market** in Victoria.



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# Significant Wells: Bosavi 1

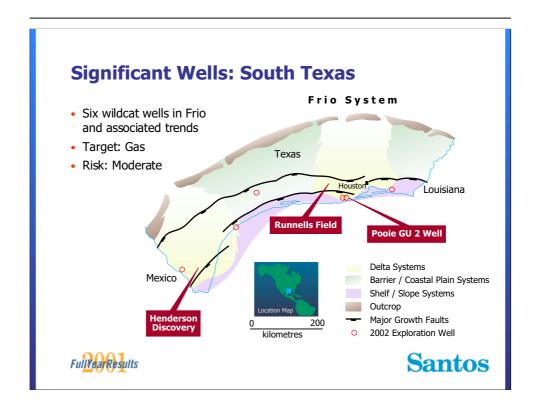
- In PNG we will test the **Bosavi prospect**.
- This is a higher risk higher reward oil opportunity.
- This forland anticline is situated immediately south of the Papua New Guinea foldbelt oil fairway.
- The Bosavi structure is a large feature, but less complicated structurally than prospects in the fold belt.
- In the event of success there are several prospects on trend which provide follow up.
- The well will address an opportunity with potential **upside** of **more** than **200 million barrels of oil**.



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# Significant Wells: Maleo 1

- In East Java we will test the Maleo prospect. This prospect is located on the same Mundu play fairway, which was successful in the Oyong discovery.
- As with Oyong there is both oil and gas potential but this
  is a larger prospect. In the case of a gas discovery existing
  infrastructure and markets in east Java will aid
  commercialisation.
- We will also be acquiring an extensive seismic program in both the Sampang and Madura Offshore PSCs to fully assess the remaining prospectivity
- The well is considered to be moderate risk and will address an opportunity with potential upside of more than 350 million barrels of oil equivalent.



# **Significant Wells: South Texas**

- We will be drilling six wildcat wells in South Texas this year.
- The focus will be on the Frio Play Fairway where we have already had two significant successes in the Runnells and Henderson Fields
- We are currently drilling the **Poole GU 2** well (where we have **encountered encouraging gas shows**).
- This map illustrates the location of the main delta systems and some of the growth faults, which set up the traps and result in several thousand feet of prospective section.
- Most of our wells are targeting the higher risk deeper targets, which are relatively under explored. At the same time we are using 3D technology to accurately define the opportunities.

# What We Delivered In 2001

- → Strategic plan
- → New organisation
- Cultural change
- Reserves review
- → Exploration success
- Strong production and earnings
- → Shareholder returns



### What we delivered in 2001

- In closing, this slide summarises the main results we achieved in 2001.
- Our strategic plan was completed setting goals, targets, and tactics.
- We have also **restructured the way we operate** with a focus **on volume**, **growth** and **service/quality** and **cost**.
- We have introduced a performance based measurement system.
- We completed an in-depth reserves review introducing new processes plus external audit for neutrality.
- **We delivered** on **the exploration front** with several promising discoveries.
- Our production was the second highest on record with good performance from both onshore and offshore operations.
- We delivered the **second highest earnings on record**.
- We delivered 14% Total Shareholder Returns.
- We are becoming leaner and more efficient.

# **2002 Priorities**

- → 1. Production growth
- → 2. Cost optimisation
- → 3. Reserve replacement
- 4. Growth projects

FullYear Results

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# **2002 Priorities**

- Turning to 2002; if 2001 was the year of transformation, 2002 is the first year in our quest to achieve the targets set in May 2001.
- In 2002 Santos has four major priorities.
- First, to increase production by around 3%.
- Second, to relentlessly drive down operating and capital costs on a unit basis.
- Third, to achieve at least 100% replacement of reserves, and
- Fourth, to increase our inventory of growth projects.
- This is an ambitious list but we are determined to achieve it.

# **Why Santos?**

- Company has been transformed
- → Strong earnings and balance sheet
- High potential exploration program
- Exposure to major Australian gas projects

Full BarResults

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# Why Santos?

- Looking to the longer term, this slide poses the question Why Santos? I believe there are four major pluses to keep in mind:
- First, we have transformed the way we operate with a clear focus on delivering growth and value for shareholders.
- Second, the company is well positioned to achieve
  historically strong earnings and maintain the quality of
  its balance sheet despite the lower oil price. The oil price is
  now trading around its long term average.
- Third, Santos is offering investors exposure to a higher impact exploration program. In 2002 we are targeting a program that has an upside resource potential approximately twice that of the 2001 program.
- Fourth, through Santos, investors will have exposure to two of Australia's largest new gas projects, the Timor Sea gas and the Papua New Guinea gas projects.
- In summary, I'm excited about Santos' prospects in 2002. We have a clear strategy, a new management team and defined processes to deliver against our targets.
- This concludes my presentation. I will now hand you back to Graeme for the question and answer session.

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