Thomson StreetEvents℠

Conference Call Transcript

STOSY - FY 2006 SANTOS LIMITED Earnings Presentation

Event Date/Time: Feb. 21. 2007 / 2:00PM PT

CORPORATE PARTICIPANTS

John Ellice-Flint
Santos Limited - CEO

Peter Wasow
Santos Limited - CFO

PRESENTATION

John Ellice-Flint - ***Santos Limited - CEO***

Good morning, and thanks for joining us for Santos' 2006 full year results presentation. 2006 was a year of mixed fortunes for Santos. A lot of things went right for us. We achieved all-time records for production and sales revenue. We increased our book reserves. And our financial results remained robust. We had other significant milestones, such as the dispatch of the first LNG cargos from the Darwin LNG plant, the start up of the Casino and Maleo gas fields and positive early results from the Cooper Basin oil project and oil discoveries in Vietnam at Blackbird and Dua. But, conversely, 2006 was also a year in which we experienced a number of setbacks, including the downgrade of the Jeruk resource estimates and our involvement in the ongoing mud flow disaster at Banjar Panji in east Java.

In today's webcast, I will initially provide an overview of the results, and we'll then hand over to Peter Wasow, our Chief Financial Officer, to run through the financials in more detail. Following that, I'll discuss our strategic value drivers and outlook in the context of our five growth businesses.

As I mentioned earlier, operationally, 2006 was a very good year for Santos. We achieved production at the upper end of our target range with output of a record 61 million barrels of oil equivalent, up 9% on 2005. Sales revenue was up 12% to a record $2.8 billion. Production costs per barrel decreased by 3% year on year, a great result in a hyper-inflationary environment. Earnings before interest, tax, depreciation, amortization and exploration, increased by 17% to a record $2.1 billion. Reported net profit after tax of $643 million was 16% lower, although this figure was negatively impacted by a number of IFRS and one-off expenses. Peter will provide more detail on this shortly, but it is important to note that underlying net profit after tax, after adjusting for non-recurring items, increased by 7% to a record $683 million.

A final dividend of $0.20 per share has been declared. The annual payout in 2006 of $0.40 per share, fully franked, was an increase of 11% over 2005. Shareholders have now seen their annual dividend rise by 33% over the past two years.

For the third year in a row, we increased our 2P reserve base with yearend reserves of $819 million oil equivalent, an increase of 6%.

On a less positive note, our total recordable case frequency rate increased, reversing the downward trend of the last three years. One reason for this increase is the large number of new people that Santos and its contractors are bringing into the field. We at Santos have to take responsibility for this performance. Through stepped-up awareness and training programs, our intention is to return to an improving safety performance trend in 2007.

Turning now to the Banjar Panji mud flow incident, which is having a major social and environmental impact on the Sidoarjo region in east Java, Santos, its board, management and employees are very concerned about the impacts of the incident. Where possible, we are providing our support to the operator, Lapindo Brantas, and the government appointed a national mitigation team. Uncertainty surrounding the liability and insurance aspects of this incident has clearly had a significant impact on share market sentiment towards Santos in the latter part of 2006 and into 2007. Whilst there is still considerable uncertainty in relation to the ultimate cost to Santos, we have made progress with our insurance claim, and Peter will shortly provide an update on our provisioning.

Looking forward, a key value and growth driver for Santos is our large contingent resource position, which now stands at over 2.2 billion barrels of oil equivalent. Whilst this figure includes the additions from the recent Blackbird and Dua oil discoveries, our contingent resource is predominantly gas. With the increasing drive towards more environmentally friendly, low-carbon fuels, we see gas as the transition energy to displace the dirtier fossil fuels, such as coal. Coupled with rapid growth in Asian economies and the consequent growth in energy demand, time frames to monetize these gas resources are shortening. Our contingent resources are a key differentiator between Santos and many of our peers, and the value of these resources is rapidly growing.

Later in the presentation, I will outline our business strategies for commercializing some of those resources. But, in the meantime, I'll hand over to Peter to provide more detail on our 2006 financial and operational performance.

Peter Wasow - ***Santos Limited - CFO***

Good morning. I hope I can demonstrate that, in 2006, Santos has produced another good operating result and largely achieved the strategic targets we set ourselves three years ago. But for the overhang of the Banjar Panji incident, we are very pleased with this result. I thought I would start by reviewing the Company's overall performance against its strategic targets. I will then go on to discuss the 2006 financial result in more detail.

In 2006, we've been able to achieve most of our strategic objectives. Production gross for the year was above target at 9%, as the impact of new projects more than offset the natural decline in existing fields. So, 2006 was a successful year on delivering our most visible strategic target, top line growth. Our netback target was set at a $45 oil price, so our performance ought to be higher, and it is. Together with the higher level of production, this has meant that more cash has been available to build our reserves base.

Moving to the cost of building our reserves, we see the same cycle that is driving netbacks higher also drive replacement costs higher. Taking netback and reserve replacement cost together is therefore a better way of looking at it, and, when we do, we see our ability to replace reserves from the cash generated by production remaining strong and, in fact, having made structural improvement over the past few years. In terms of reserve replacement rate, over the last three years, we've replaced 162% of production on a proven basis, which exceeds our target and therefore extends our reserve life. Again, this is a very strong performance, when the industry generally is struggling to replace reserves. Success on these metrics in conjunction with higher prices means that we are increasing our cash generation and operating income per share at well above target rates. Returns on capital are also well in excess of target.

Let's have a look at each item in a little more detail. Production at 61 million barrels is 9% higher than 2005 and is at the upper end of our expectations. Underlying field decline of 6.2 million barrels is 11% of 2005 production. Offsetting this decline is largely organic new source production growth of 21%. The key contributors to growth in 2006 were John Brookes, Casino, Fairview, Maleo and Bayu-Undan in the form of LNG. The more significant declines were at Mutineer-Exeter, Cooper gas and in the United States. We also show, on the right side of this chart, the production on a continuing operations basis with 59.8 million barrels, which is a comparator for our 2007 guidance of 59 to 61 million barrels of oil equivalent. So, top line growth has been strong.

This is compounded by a strong performance on a margin per barrel basis. Our netback, or cash margin per barrel sold, has grown by 12%, leveraging the impact of higher production to the bottom line. We have, like everyone else in the industry, benefited from the higher oil prices, which, in 2006, added AUD$5.44 per barrels of oil equivalent to our overall margin. However, this benefit was partially eroded by a change in our production mix. The new source production in 2006 was comprised largely of Australian domestic gas projects at lower average margins. This reduced our average netback by AUD$2.27 per barrel last year. Nonetheless, Australian natural gas prices continue to increase at a rate faster than inflation. Lower U.S. gas prices and lower ethane pricing in the period have offset this gain. As we had more exploration deductions against our PRRT assessable income and notwithstanding higher prices, the PRRT bill came down in 2006, boosting margins by AUD$0.43. One further item of note here, and I'll pick up on it on a later slide, is that we've been able to reduce production costs per barrel, which is obviously very pleasing.

Increase in production and higher margins provided more cash for reinvestment. This metric addresses how well we've been reinvesting the increased cash flow. As I said earlier, higher industry costs, driven by higher oil prices, are forcing up the cost of replacing reserves. Consistent with this experience, our three-year average reserve replacement cost of AUD$10.74 has increased by 23%, but this is still a respectable outcome when compared to industry experience.

Since the oil price and input costs are moving together, it is important to understand how the business has performed taking both of these impacts into account. We can do so by looking at the recycle ratio, which represents the number of barrels we could replace with the cash generated from one barrel of production. We see on the charts that the higher cost of replacement in the recent past has been more than offset by increases in the netback, or cash generated per barrel of production. This has meant an improving recycle ratio through the period with the gains made last year largely maintained, and our ratio held at around 2.5 times.

Having increased our cash generating capacity and controlled the cost of replacing reserves, the remaining question is - how many barrels have we actually added through the year? The charts on this slide show our annual and three-year average reserve replacement rates for 1P and 2P reserves and contingent resource adds. We have exceeded our 1P reserves replacement ratio target of 140%, with a three-year average of 162%. As the charts show, our 2P reserves replacement rate is even higher at 212%. Our contingent resource base, which provides a pool of opportunities for longer term growth, has also increased at a compound annual growth rate of 15%.

But, headline growth in reserves isn't everything. The other big improvement in the reserve base, apart from its scale, is the pleasing increase in the proportion of reserves developed over the period, which we can see in the bottom right of this slide.

So, let's recap. We've exceeded nearly all of our strategic targets. We've grown production and margins. Reserves growth has been achieved while keeping reserve replacement costs under control. And we are efficiently cycling reserves along the conveyor to increase cash generation.

How then is this reflected in shareholder value creation? Having heard the story of 2006 so far, you would expect that our financial metrics will also be very strong, and I'm very pleased to be able to confirm that now.

Our EBITDAX per share growth has been well in excess of our 10% compound growth target over the least three years. We use EBITDAX per share rather than earnings per share, as it is less impacted by the volatility of earnings in the post-IFRS world. It's also a good proxy for operating cash flow per share. Return on capital employed of 15% is substantially higher than our 10% target, with the reduction in 2006 largely due to the impact of significant items on 2005 profits. All of this is a neat segue into a more traditional look at our performance.

Although our headline NPAT has decreased from AUD$762 million to AUD$643 million, when you strip away the impact of significant items, our underlying profit performance remains strong. Higher production and margin growth, partially offset by higher DD&A charges, have flowed through to our bottom line, resulting in a AUD$56 million, or a 9%, increase in our operating performance. Exploration and evaluation expensed during 2006 was AUD$12 million higher. Allowing for the improved operating performance, this has seen underlying profit increase from AUD$639 million to AUD$683 million, or a 7% increase. We believe this reflects a strong result for the Company.

The impact of significant items on our headline result in both years is substantial and requires comment. In 2005, our headline result was inflated by the impact of large impairment reversals, which we highlighted to you last year. As I said last year, this non-cash movement in the carrying value of some of our assets was driven by increasing oil prices, and we will continue to report any impairment adjustment as a significant item.

The most important significant item for 2006 is the amount expensed, net of insurance proceeds, in respect of the Banjar Panji well. I don't propose to go over the details of the incident, as I expect everyone is familiar with the situation on the ground.

This slide summarizes the financial impact of our cost estimates. As far as estimating the costs Santos will have to bear, the situation remains very complex. The provision for Banjar Panji has increased from AUD$24.3 million in the 2006 interim accounts to AUD$89 million. This is an increase of approximately AUD$65 million over the amount provided at June 30. Although you will recall that guidance was provided to the market in October last year that the operator had increased its cost assessment to $180 million, indicating that the Company considered that the half year provision would need to be revised to at least AUD$43.7 million, representing the Santos Brantas 18% share. While neither Santos nor its subsidiary, Santos Brantas Pty Ltd, has admitted any liability, this provision reflects the board's prudent estimate of the costs that may arise relating to the incident. At year end, we've also recognized a AUD$22 million insurance receivable in the accounts, leading to net costs of AUD$67 million. The after-tax amount is also AUD$67 million. The insurance proceeds include Santos Brantas' share of the $25 million well control insurance held by the joint venture, of which a small initial amount has already been received by the joint venture. The balance relates to Santos' own well control insurance. We have, therefore, recognized an amount that reflects a progress claim under our own policy while we continue to work towards a resolution with our insurers. The provision also reflects an assumption that a resolution will ultimately be agreed between the government, Lapindo Brantas Incorporated, the non-operating PSC parties and all other relevant parties. It is premature to speculate as to where all liabilities will ultimately lie, and considerable uncertainty remains as the ultimate total cost cannot be accurately assessed while the mud continues to flow and the matter is subject to investigation, arbitration, litigation and discussion between the relevant parties. I would like to stress that, while we have made a provision based on the best information we have available to us from a variety of sources, there remains significant uncertainty around whether Santos Brantas as a participant in the joint venture has any actual liability and, if so, the extent of that liability.

Once again, this is an extremely complex matter, and Santos has been careful to reserve all its rights as relevant parties work through the issues. At this point, Santos' first priority remains to support the operator and the national mitigation team as they seek to put in place long term mud management plans and to address the impact upon those affected by the incident. Further updates in relation to Banjar Panji and any revision to our estimates will be provided as and when anything material arises.

Earlier, I alluded to our production cost performance, and let me expand on that point now. Production costs per unit have fallen year on year. Production costs in total have increased from AUD$369 to AUD$390 million in 2006, an increase of 6%. But, with production increasing 9%, production costs on a dollars per barrel basis have actually fallen by 3%. Our increased production in 2006 has come largely from fields with lower than average production costs, most notably John Brookes, reducing the average across the portfolio. Overall, production costs have reduced from AUD$6.59 per barrel to AUD$6.41 per barrel, which is a very pleasing aspect of our results. And, while this has not had a big impact on our financial result, taken together with our track record of delivering on major projects and our ability to meet production guidance, I believe they are an important signpost to Santos' growing ability to be seen as a reliable performer.

While we've been quite successful in limiting the impact of rising industry costs on operating costs, this situation has had a significant impact on our depletion and depreciation charges in 2006. On a dollars per barrel basis, DD&A has increased by 13% to AUD$11.35 per barrel. Interestingly, production from new projects in 2006 came from low cost developments and actually reduced the overall DD&A charge.

However, it is in the future costs to develop our 2P reserves and restore production sites that the impact of rising industry costs is being felt. We assess likely future costs annually and have at yearend increased our estimate for these costs across all fields.

The resulting AUD$127 million increase in DD&A for 2006 has three components. First, increases to future [down-hold] development costs and restoration costs, impacting nearly all fields, increased DD&A by AUD$81 million. Second, Cooper oil reserves added in 2006 to the Cooper Basin depletion pool come with a higher future development cost, increasing the average Cooper Basin depletion rate per barrel. This effect increased depletion by AUD$31 million. Last, reducing the discount rate on restoration provisions, increased the carrying value of oil and gas assets and added AUD$15 million to DD&A. In relation to this last point, reducing the discount rate on restoration provisions has an offsetting impact in interest expense, where the unwinding of the discount on provisions is lower than it otherwise would have been.

Capital expenditure in 2006 was a record AUD$1.036 billion, up 36% on 2005. The chart shows the major components of that spend, which reflects a larger exploration program and continued development and appraisal activity, both onshore and offshore Australia and in Indonesia.

Our current outlook for 2007 is for lower capital expenditure, totaling AUD$1.180 billion on activities that appear likely to proceed at this time. The 2007 exploration program of 14 wells has been scaled back from the 25 wells drilled in 2006, partly due to the lack of rig availability in the region and partly due to the improved risk/return equation we now see in Cooper oil. The Cooper oil program will continue to ramp up in 2007, and, along with development of Fairview, phase four of the Mutineer-Exeter field development and Cooper gas development, these items will make up the lion's share of the current 2007 development program. Our capital expenditure program is actively managed to high grade opportunities as they mature and may change as 2007 unfolds.

So, let's summarize the year. Headline profit was lower, but higher underlying profit reflects 9% production growth and higher margins. This has led to record cash generation. Over the last 17 years, we have achieved an average annual compound growth rate for operating cash flow of 13%. And we have reinvested our cash to build a business that continues to deliver on its strategic targets. Higher cash generation has allowed us to increase dividends by 11% to AUD$0.40 per share. However, the Company's large opportunity set, partly reflected in its large contingent resources base, constrains our appetite for capital returns and sets us apart from any others in the resources industry who lack opportunities to reinvest their cash surpluses profitably.

On that note, I'll hand back to John.

John Ellice-Flint - ***Santos Limited - CEO***

I'll now take you through the five business areas listed on this slide that will drive our performance in the near and longer term. Firstly, the Cooper Basin oil project, where we are one year into a five-year 1,000-well project to increase oil production. Santos is the only company in Australia with the acreage position, infrastructure, equipment and know how to be able to undertake an exploration and exploitation program of this magnitude. Using specialized teams, we have built and will continue to roll out what is best described as an efficient production machine. Through improved use of technology, including automated drilling rigs, we have been able to significantly reduce cycle times and improve recovery factors. Wells that used to take over 21 days from spud to spud are now being drilled in an average of 7 days. Successful wells are being put into production in around 63 days. Our next target is to drill wells in 6 days and have them online within 40 days. This is a high value, lucrative opportunity that is truly unique to Santos.

It is pleasing to report that our 2006 results from the Cooper oil project were well above expectations. The project started during the first quarter with one rig and, by midyear, had been built up to three automated rigs and one conventional rig. We drilled 108 wells, 8 ahead of plan, and installed a large amount of infrastructure, including high voltage power lines and oil flow lines. The drilling success rate of 79% was also ahead of budget. We booked 15 million barrels of reserves, over twice the budget amount, and initial flow rates per successful well were almost double expectations. This program continues to generate excellent returns, even with the full cycle finding and development costs of AUD$22 per barrel being higher than planned. The 2007 Cooper oil program will see a further step change in activity, with 190 wells to be drilled, targeting 17 million barrels of 2P reserves.

So, what does this mean for Santos in a production sense? As shown on this chart, during 2006, we arrested the natural base field decline, ending the year with a net production rate of 10,000 barrels per day. Given the drilling success, this production figure could have been higher were it not for the need to roll out critical infrastructure and debottleneck existing facilities. In addition, we successfully commissioned the water flood program, injecting water into five wells. In 2007, we expect to see Santos' share of production grow to around 17,000 barrels per day. To put this in perspective, this is roughly equivalent to Santos' current share of production from the Mutineer-Exeter field offshore western Australia. By 2010, we anticipate almost doubling the production rate again, to around 30,000 barrels per day, Santos' share. Annualized, this is over 15% of our current total annual production.

So, to summarize, the Cooper Basin oil project is real, it is scalable, it is delivering positive results, and it will contribute a significant and growing part of our portfolio moving forward.

Turning now to gas in eastern Australia, Santos is still the largest producer of domestic gas in Australia. By virtue of this position, we know the markets very well, and we have a proven ability to contract gas. It is necessary to make these points because our insights, abilities and infrastructure position are often overlooked by many people analyzing our company. Eastern Australia is an increasingly integrated gas market, having progressed from regional markets through developing infrastructure. Over the last five years, we have written new contracts for 1.2 trillion cubic feet of gas into the eastern Australian gas market. Recent political, community and media focus on the need to lower greenhouse gas emissions will drive higher demand for indigenous gas reserves. And, Santos, with large, uncontracted gas reserves and resources, is well positioned to benefit.

Much is written about declining gas production from the Cooper Basin. However, we believe that the focus on this mature asset is causing many to miss the big picture. That is, in 2006, we achieved our highest ever production, notwithstanding the lower contribution from Cooper Basin gas. The fact is that successful diversification in the last three to five years has dramatically changed our portfolio profile. And we have now built a new legacy business in coal seam gas, a resource which will underpin our ability to market and contract significant volumes of gas for several decades to come. We are also a significant participant in the growing Otway and Gippsland hubs in southern Australia. Further growth for us will come from projects including Henry, Kipper, Sole and [Lon Ton].

The demand and uncontracted reserve points are well illustrated by this chart. The top line shows Wood Mackenzie's view of the demand growth for eastern Australian gas. This shows a compound annual growth of 3.7% for the next 20 years. To put this in context, the demand growth in the next seven years is approximately 200 petajoules per annum. This is slightly more than Santos' total annual production. So, Wood Mackenzie is saying that the market needs extra production equivalent to that of Santos' existing production every seven or so years. Additionally, market commentators have pointed to Australia's need to replace much of its power generation capacity within the next 15 years and that a significant amount of this new capacity is expected to be gas. That not only points to a great opportunity for us to defend and extend our market position but also is clear evidence that the growth of coal seam gas has been in response to growing market demand. The wedges at the bottom of the chart show our contracted gas position and the timing for dispatch of our uncontracted 1P and 2P reserves.

Analysts regularly include only our contract reserves in their valuation models, which is inconsistent with the way that they model our vertically integrated peers. Given our 40-year track record in marketing gas, value needs to be attributed to our proven ability to continue to write new contracts.

I'd just like to build on the point that I made earlier about coal seam gas as a new legacy business for Santos. We have now been reliably delivering coal seam gas for over five years. We know the business well. With Fairview, Scotia and Roma, we have very high quality acreage and are positioned in the top two in the market in terms of reserves and production. This affords us economies of scale and access to rigs, technical capabilities and infrastructure. And we are not planning to stand still. We are continuing with an aggressive exploration and appraisal program to prove up additional reserves. In 2006, we were able to grow our coal seam gas production by 65%, and we anticipate around 200% growth over the next five years. In the last year, we added 380 petajoules of 2P reserves at a finding cost of AUD$0.07 per gigajoule. So, we have rapidly bedded down the Tipperary acquisition, and we are currently producing the Fairview field at facility limits. During 2007, we will increase Fairview capacity through the installation of 800 horsepower of new compression and a new 130 kilometer pipeline to Wallumbilla.

Our third growth business is in western Australia. In 2006, this region contributed 6.9 barrels oil equivalent of production, representing over 11% of our total output. Domestic volumes of gas consumed in western Australia are the highest of any state in Australia, and demand growth remains robust. Whilst the state has abandoned gas resources, further development to meet growing demand will necessitate upgrades and extension to gas infrastructure. Reflecting this, contract prices for gas in western Australia have recently moved to over AUD$5 per gigajoule. Santos is well positioned to deliver further growth in gas production at these higher prices. We're also drilling short cycle time oil and gas prospects close to our existing production facilities.

John Brookes has performed well since coming on stream in late 2005, and various options exist to further ramp up gas production from the field. The successful appraisal of the Reindeer field during 2006 provides an attractive follow-on opportunity to commercialize an additional 300 to 500 petajoules of gas resource. A feasibility study is underway with a view to commencing production in 2010.

In the Carnarvon Basin, the Mutineer-Exeter field continues to perform above expectations, currently producing around 50,000 barrels per day. Further appraisal drilling will be undertaken in 2007. During the first half of 2007, we will drill a new field exploration well at Fletcher, which, if successful, could be tied back to the existing FPSO. In the second half, a well will be drilled at Totem, which is a follow up to the 2006 Amulet oil discovery. An oil appraisal well is also planned on the Hurricane discovery, which is located close to the Legendre facilities.

It's no secret that demand for gas in Asia, Europe and the United States is booming and that the LNG industry is growing in step. Gas resources that, a few years ago, were unlikely to be sanctioned in a 10- to 20-year horizon will now be realistically developed in a 5- to 10-year time frame. During 2006, Santos made its initial foray into LNG with the first cargo shipped from Darwin to customers in Japan. We are now actively progressing on multiple fronts to grow our exposure to LNG. In particular, Papua New Guinea LNG and Darwin LNG provide the opportunity to commercialize a large portion of our contingent resources within a reasonable time frame. We also have two very prospective blocks in the Browse Basin, adjacent to [InPex's Ixthus] complex and extensive acreage in Indonesia's Kutai Basin, adjacent to Chevron's recently announced gas developments.

The Hides gas field, in which Santos has a 25% interest, remains the premier gas and condensate resource in Papua New Guinea. Two wells on this field have been in production for over 15 years, supplying valuable reservoir performance data. Exxon Mobil is progressing the evaluation of an LNG development, including the Hides gas field. The potential scope is for a 5 to 6.5 million ton per annum LNG facility targeting production in the 2012 to 2013 time frame. Such a project would commercialize several hundred million barrels of contingent resource for Santos and make a material contribution to our production outlook. In PNG, we are also evaluating the potential of the Barikewa field.

The Darwin LNG plant at Wickham Point currently consists of a single train of 3.5 million metric tons per annum, and approvals are in place to expand this plant to 10 million metric tons per annum. This is an attractive opportunity for Santos, given the relative benefits of brownfield versus greenfield expansion, allowing us to utilize existing infrastructure. With its joint venture partners, Santos has drilled three exploration and appraisal wells over the last nine months, and we are in the process of acquiring additional 3D seismic. This appraisal process will continue into mid 2008, with the aim of defining sufficient resources to underpin the construction of the second Darwin LNG train.

Outside Australia, Santos is continuing with its strategy of seeking to identify and mature core areas. During 2006, after a strategic review, we decided to focus our efforts and expenditure in Asia. And, as such, we are currently selling our USA business. In Asia, we have clear competitive advantages, including regional experience and extensive industry and political networks. Indonesia and Vietnam are countries where we are building material positions with near term development opportunities. The strength of any exploration portfolio is determined in part by the amount in prospectivity of acreage held. During 2007, we captured additional quality acreage in India, Kyrgyzstan and Vietnam.

In Vietnam, we have made a very positive start since entering the country early last year. The Dua and Blackbird oil discoveries have been successfully appraised, and development planning has already commenced. As you can see on this map, these two fields are around 20 kilometers apart. A joint development is currently being studied, targeting first production in 2010. The government of Vietnam is very supportive of progressing gas developments to meet its rapidly expanding domestic energy needs. This bodes well for the Swan gas field, which is well located near existing infrastructure.

In Indonesia, the Oyong oil field is expected to start production next quarter to add to the existing production from Maleo. The Wortel gas discovery is progressing through the development planning phase, with the possibility to tie back to the Oyong field facilities. Following the disappointing appraisal results at Jeruk, we are continuing discussions with the Indonesian regulator to determine the best forward program for this field. In the deep water Kutai Basin, the lack of availability of deep water rigs at an acceptable price has constrained our ability to progress the appraisal of the Hiu Aman gas and condensate discovery.

In India, we recently secured two deep water blocks in what we believe is an attractive frontier basin. These blocks were the most highly contested of the deep water blocks in the recent bidding round. Our initial program for the first three years is to acquire seismic prior to drilling an exploration well.

So, what does this all mean for Santos' production outlook? Our guidance for 2007 and 2008 is to maintain production at our current record levels of between 59 and 61 million barrels oil equivalent, after taking into account the sale of the USA business. Beyond that, we see moderate growth into the next decade, followed by a step change as the LNG projects in PNG and Darwin come online. Strategically, we are concentrating on short to medium term development opportunities, together with our active delineation and development program. And, we are continuing to invest in exploration, with a view towards identifying and maturing further development options.

Key value drivers in each of our business areas are described on this slide. To sum up today's presentation, our operational performance was excellent in 2006, resulting in record production and positive financial results. Looking forward, we need to resolve the uncertainties around the ultimate financial outcomes of Banjar Panji so that we can provide investors with much needed clarity this area. As a management team, we are very enthusiastic about the upside inherent in our portfolio, particularly the Company's large contingent resource position. We have the skills, resources and drive necessary to continue to pursue our strategies across the five business themes that we have presented today.

Thank you.