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TRANSCRIPTION

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Chair: Andrew Seaton

[START OF TRANSCRIPT]

Facilitator: Thank you for holding, and welcome to the Santos 2007 Interim Results presentation. I'd now like to hand the call to Mr Andrew Seaton, Group Executive of Investor Relations at Santos. Thank you and please go ahead.

A Seaton: Thank you Vasim, and good morning to everyone on the call. With me here in Adelaide are John Ellice-Flint and Peter Wasow. The assumption for the call is that you will have seen the accounts, the ASX release and the presentation slides that have been lodged this morning, and also been able to access the webcast presentation, which is available at santos.com. So the purpose of this call is to move straight into a question and answer format, and with that I'll hand back to the conference administrator to queue up the questions.

Question: (Mark Greenwood, JP Morgan) I've got a question about the Fairview programme. End of 2005, I think, around \$340 million was authorised as an expansion programme. In February this year, you talked about a \$700 million six year programme, and I noticed in today's presentation you talked about approval of \$300 million. Is that recent approval of \$300 million a sub-set of that \$700 million programme? I'm just trying to figure out exactly what is planned for that asset. Also, for that capital amount, whether it be \$700 or a billion dollars, could you indicate what level of production you aim to achieve with that capital spend?

J Ellice-Flint: The original estimate went out in the corporate briefing, and that didn't include any money for compression. So that was the original numbers that we put in using the Tipperary programme. Since then, we've decided to buy our own compression and that gives us an opex saving of around 30 cents a million cubic feet. So that's around, I think, \$295 or something of that order, \$300 million difference. And the answer to your question, yes the \$300 is part of the \$700 for the 200 petajoule plant.



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Question: Oh, and that's going to get you up to around 200 petajoules a day gross by 2012, is that right?

J Ellice-Flint: It's a part of it, so that the board's approved the expenditure for the next 18 months, but then there will be further expenditure beyond that to get up to the 200 petajoule a day case. And that's the \$700 million number that you were referring to.

Question: The \$700 million is total capex for the next 18 months, including capex spent last year, is that right?

J Ellice-Flint: No, \$700 is total capex to get from the Tipperary acquisition case to the \$200 petajoule day case. But we will be actually coming out with a separate presentation at the end of September, on our coal seam methane activities.

Question: And just a follow up on that one. I think originally all this gas was sort of destined to go to the domestic market. Can we still think of it that way? Are the Gladstone LNG plans to add to that 200 petajoules a day, to achieve the gas requirements for your Gladstone LNG plant, or could some of that 200 petajoules a day go into the Gladstone LNG plant?

J Ellice-Flint: Some will go in.

Question: Can you give us any indication how much?

J Ellice-Flint: As I said, we'll be coming back in September to give a fuller brief. We will have our management team get together, and we'll give a full update on all our plans around the end of September.

Question: (Andrew Blakely, Macquarie) Just checking, sort of following on from the same question. The \$300 million approval, that is all fully on the field, none of that \$300 is going to be because it's board approval for Gladstone LNG, but it's going to be largely on the Fairview field rather than anything on Curtis Island?

J Ellice-Flint: Correct. Yeah, there will be some environmental work and stuff like that, but not in terms of levelling the site.

Question: Okay. I've got just a couple of quick questions for Peter, if that's okay. In terms of PRRT payment and overall royalties, it seemed to have gone down quite a lot relative to previous quarters and against stock forecasts. So I was just trying to check where that was, if that was basically a sustainable position, or whether that was going to come back up in the second half?

P Wasow: Yes. We have benefited in the first half from the higher exploration deductions, so that provided a shield. The second half is not expected to be shielded as much as we shift our programme to include more drilling, not in PRRT waters. And so you can expect the second half PRRT to be higher. We're looking at a net expense of around \$30 million for the full year.



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- Question: Sorry, in terms of offset?
- P Wasow: No, in terms of PRRT expense.
- Question: And then perhaps just on the exploration expense for the full year against the first half, if you could just give some guidance on that in terms of split between exploration and evaluation?
- P Wasow: Well if you look in the backup slides, you'll find a table in there that details it.
- Question: Okay, and just a last question on John Brookes. I see there was a highlight of uncontracted gas. I was just wondering if that includes – I believe from the East Spar contract, there was a requirement to repay back the tap on the other joint ventures. I was just wondering if that volume of uncontracted gas included that return volume to tap?
- P Wasow: That's net.
- J Ellice-Flint: Yeah, that's net, so that's a net 140 petajoules to Santos of 2P.
- P Wasow: Of gas, which can be contracted.
- J Ellice-Flint: Yes, which can be contracted right now.
- Question: (John Hirjee, Deutsche Bank) A question on the LNG project in Timor, about Caldita Barossa. Could you just outline some of the concept studies that have been done? I was under the impression that was another further train, a Darwin LNG. Are other concepts being considered for that?
- J Ellice-Flint: Yes, the operator also looked at floating LNG.
- Question: Alright, so floating LNG. And in terms of petrol in turn, is that something you're trying to develop into Darwin LNG, separately from that, or is it in conjunction with, to augment the gas resources?
- J Ellice-Flint: Yeah, both those cases have been looked at John. And that's also why we're doing the 3D and drilling Frigate, so it's part of that complex, and potentially putting it with other gas to give you a jump start on the second train.
- Question: Sure. Alright. You've certainly now aligned yourself with the LNG industry. I'm just wondering, in terms of the marketing now of your gas to customers, are you getting directly involved there or are you relying on some of your other joint venture partners, who have got the marketing connections?
- J Ellice-Flint: We're getting directly involved and we have been directly involved with Bayu Undan so it's not as if we're just starting from scratch. So as part of our agreement with the Bayu Undan joint venture, we had somebody on the marketing side of that during that phase, and that person is leading the initiatives with our other projects.
- Question: Alright, and then a final question if I can. I think on the webcast today, I think it was Peter who mentioned that Bayu Undan was your second most



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valuable asset in your portfolio. Could we extrapolate therefore that the value increment from expansions there would be very beneficial to your bottom line, compared to some of these other greenfield projects that are being considered?

J Ellice-Flint: The answer is yes.

P Wasow: And every time you can do a brownfield venture, as you know you get a premium.

Question: Alright, so that would be high on your list of priorities I would imagine then?

J Ellice-Flint: Yes.

Question: (Stewart Baker, Morgan Stanley) Just a follow on question on the LNG project, and just looking at them and sort of trying to rank them. It just does seem to me a little bit that the Timor or the LNG projects off-shore in the Timor Sea, have perhaps lost a bit of momentum, versus the other ones, which have come forward. Obviously things like Gladstone and perhaps now PNG, I'm just wondering whether there's been – and there hasn't been a lot of work done obviously in the last year in terms of drilling. I just wonder if there are any particular issues now that have to be addressed, such as reservoir or production levels, reserve levels, gas quality et cetera?

P Wasow: Thanks Stewart. We have spent over \$100 million with the three wells in just over 12 months plus the seismic survey, and the seismic survey is 6,000 square kilometres, so it's by far the largest proprietary seismic in any basin in Australia. So integrating that data, there's a huge amount of data so the operator has also built the reservoir models along with integrating with the seismic. The Evans Shoal seismic was shot first before Caldita Barossa, and it's integrating those that is where we're at currently.

Question: Just another question following on in terms of the Eastern Australian gas LNG – in fact there's a slide there, page 23, which shows what the netback for gas. I presume that band, domestic Australia netback range is for the netback to LNG, is that correct?

J Ellice-Flint: Correct.

Question: Okay, and in terms of understanding how that's been arrived, I see from note two there that it's after shipping and liquefaction costs. I just wanted to find out whether – is that a cash cost netback, or does that include the capital or development costs, DDNA for example?

J Ellice-Flint: Yeah, it includes a fair return on the capital invested to liquefy and ship the product.



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Question: (Gordon Ramsay, UBS) John, just a quick question about gas prices. It looks like your Australian domestic gas price has increased by 7 per cent. What's your outlook going forward?

J Ellice-Flint: I think I've made it quite clear what it will be, but I think that what's interesting Gordon, is that you're seeing gas demand both in Australia and internationally being driven by higher demand. And that's, I suppose because of the unique benefits of gas, where it's feedstock in electricity, it's got benefits in greenhouse gas being 50 per cent less greenhouse gases than coal, and the same applies with water consumption. You've got about 80 per cent less water on an equivalent energy basis.

So domestically you're seeing that driver, and there's big demand in the resource sector, not just in Western Australia but across Northern Australia and into Queensland. So there is a substitution effect as well as everyone wanting to get on the bandwagon. So I think that the prices are going to be driven on the basis of demand, and also the cost structure of the new fields that are going to proceed. With the cost structure where it currently is, if the project is to go ahead you need higher prices. So it's pretty fundamental what's going on, and where does that leave Santos? It leaves Santos, I think, in a very good position, because most of our production is on-shore, they're brownfield developments, and that puts us in a pretty unique position.

Question: Okay, just one more John, if I can. There was a statement that you made in the website that by 2020, half the total production in the company will be from LNG. What are the assumptions behind that?

J Ellice-Flint: I think you've seen the projects we're talking about, whether it's from Gladstone to PNG to Timor Bonaparte. Our position in North [unclear], I wish we could have drilled that well in the last quarter of this year. I'm more bullish on that particular structure. So those are the four areas, and we've also got the discovery in Indonesia as well.

Question: So there's certainly all those four years contribute?

J Ellice-Flint: Yes.

Question: (Stewart Baker, Morgan Stanley) Just looking at the Cooper Basin oil programme there, it looks to me like you've obviously got some – starting production there. I'm just wondering what the current run rate or current production level is, and how achievable your target is for the year end there of 14,000 barrels, and what does it require to deliver that?

J Ellice-Flint: You're right Stewart. The good news is on a project of this size, I thought the biggest challenge would be getting wells that could produce at the right rate and infrastructure in place. What we're talking about there, is we've got the capacity so it's about delayed production. So we've got the wells that can produce at up to 14,000 barrels a day, but the two things that have hit us are basically the ability to export the crude, with some of our higher flow rate wells having higher pore point that we anticipated.



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They're currently shut in, and obviously we're looking at ways to treat that with pore point suppressants, and how we blend. And then the other one is the restriction on our export line to the East Coast, so we've had to rely on a lot more trucking than was anticipated. So that's caused the delay that we're currently in.

Question: Thanks for that. And just a final question for me on something that doesn't appear in the slide pack there, I'm just wondering how you're going on the CO2 proposal for the test re-injection in the Cooper, and all that associated stuff? There's no updates there that I see.

J Ellice-Flint: No, that work continues. We see the potential as we've said for a long time, to establish a long-term high volume CO2 business in these fields, and to use CO2 back into the ground to recover in the tertiary phase. I think that it's quite interesting when you think about the climate change debate in Australia. We've got plenty of sources, but very few sinks, and this is a genuine world class sink and there is added benefits by putting that CO2 in and recovering extra hydrocarbons. So we're currently in discussions with the government to move this plan ahead.

Question: (Anthony Bishop, Goldman Sachs JB Were) I've got a few questions. First of all, in relation to the slide on Mutineer-Exeter, you've highlighted in the presentation you're targeting two field extensions. I'm just wondering if you could give us a size of the potential size of those targets, and the timing of the drilling? 2P is what I'm after, resource estimates.

A Seaton: I don't have those numbers here, Anthony. I'll come back to you after the call with that if you like.

P Wasow: But you can see the production impact on those charts Anthony, and also the timing of the drilling can be seen on the charts too.

J Ellice-Flint: Basically, it's similar to Wanaea /Cossack, in this trend that Wanaea/Cossack, both outperformed the area of closure. And we're seeing the same sort of thing going on here, and it's basically the throat between Exeter and Mutineer that we're looking at. But we've got a resource range there, but it is between that and Fletcher with the side tracking of up dip in Fletcher. I think that the size potential in Fletcher, is probably as significant as the two development wells there. But we're looking at an extra 10,000 barrels a day.

Question: That's from the work overs, right?

J Ellice-Flint: Yes.

Question: Pete, you mentioned that the drilling is indicated on the chart. I'm just looking, is that what you call the phase four wells risk, is that what you're referring to?

P Wasow: Either if you look at the risk or the up or the success case, you can see the peak coming on around December-January from the first one, and then around July-August for the second well.



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- Question: Okay, so two wells, one early next year and one mid-year I suppose...
- J Ellice-Flint: The rig goes straight from Fletcher to – and we're trying to get all the work over – work done before the cyclone season, so it goes straight on to do the work overs.
- Question: I see, thank you. Now, in terms of – we've talked around some of the issues on LNG in terms of how petrel tern could potentially be rolled into a Darwin LNG or mixed with other gas. There's obviously some discussions or work going on about Caldita Barossa and a fighting LNG concept. Could you just talk around a little bit around some of those discussions and the various options, just to give us some more colour on what's going on? Because it does seem as if it has lost some momentum as Stewart said earlier, and it would be good to get an idea of what's going on behind the scenes in terms of the potential options that are being considered.
- J Ellice-Flint: I don't know whether it's lost momentum. I think it's lost news flow, because we've got an operator – it's in their top five projects as far as I know, I think, Bayu Undan in this area is. So I think that's the issue, is how much ConocoPhillips actually puts information into the market, and the onus comes back to us. I think you can work it out, is that petrel tern is very low CO₂ relative to the rest of the accumulations up there. And if you can either use that gas to blend down or you actually produce that gas first, and then you've actually got a potential source to sequester the CO₂ back into the ground from the other fields. So they're things that we've been looking at.
- Question: What about the interaction with Sunrise, John, is that getting a look in, in terms of potential joint development?
- J Ellice-Flint: No, we haven't looked at that. Obviously ConocoPhillips is in Sunrise and the challenges there, as you know, it's in the joint area, roughly 20 per cent is in the JDA area, so that's the challenge there.
- Question: It's not something that could potentially use the feedstock gas for a second train at Darwin?
- J Ellice-Flint: I'm sure that joint venture is looking into those options. But you've been around the industry long enough to know that I suppose one of the challenges, and Don's spoken about that as well, is getting these large projects off the ground is inversely proportional to the number of joint venture partners, I think.
- Question: Is the different ownership across the projects causing problems, in terms of getting alignment for what is the appropriate development action to be taken?
- J Ellice-Flint: No, not for us in Caldita Barossa and petrel tern. I mean, there's ostensibly a very small number of parties, there's three parties.



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Question: You mentioned that one of the things that you were focusing on was commercialisation of some of the resources that you have out there. And you've identified Kutei. I assume you're talking about Hiu Aman there. Previously that was stalled due to basically looking for opportunistic pricing on rigs, so that you didn't have to pay up for them too much, I suppose. Is that something that's now being progressed? Have you secured a rig to actually do further appraisal on Hiu Aman?

J Ellice-Flint: Yeah, we're in the final stages of securing a rig, so that will be some time next year from my understanding – mid half of next year.

Question: And is the idea that you would sell that gas into one of the on-shore facilities there in Indonesia?

J Ellice-Flint: Yeah, assuming that everything proves up, the appraisal wells are successful.

Question: In terms of the Cooper oil programme, just in terms of what you indicated, the target of 14,000 BOPD. I was just wondering, in terms of the remediation efforts or fixing the pore point and the export pipe limitations if you like, when are they likely to be resolved so that we can sort of work out towards when we should be factoring in that target rate being achieved?

J Ellice-Flint: Every day I'm doing a lot of yelling. I think that end of September is what we were looking at. In terms of improving the trucking, it's improving every day. So I'll come back to you...

P Wasow: I think Anthony's referring to how will the production profile look for 2008, how will that gap...

J Ellice-Flint: The gap, at this stage, I think we'll have a very good idea by the end of the year. I mean, the capacity keeps building but that's not what puts dollars and cents into the cash register, is the exit rate is going to be key.

Question: Yeah, I was actually referring to the sort of when is 14,000 likely to be achieved?

J Ellice-Flint: 14,000 is at the end of the year, Anthony.

Question: By the end of the year, you expect that to be achieved?

J Ellice-Flint: Yes...for production.

Question: In terms of – there was one item in the accounts or a couple of items in the accounts or a couple of items in the accounts I just wanted to raise. The first one was, in the other income you have \$11.7 million gain on assets up for sale. I was just wondering what that related to, and I was kind of surprised to see it categorised where it was.

P Wasow: It's actually the gain that we made on the sale of the QGC shares that we accumulated, but unfortunately didn't accumulate enough of during that bid earlier in the year.



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Question: Okay, right, very good. So certainly not expected to be a recurring item?

P Wasow: No. But I think people need to be clear, we had another question about this. There is a difference between EBITDAX and underlying profit. They're measuring two different things, and so you will find things like that in EBITDAX, that you won't find necessarily in underlying profit.

Question: And that related to my point about the gain on the re-determination at Bayu Undan, and why that was classified within the EBITDAX, when otherwise you've stripped it out of your underlying profit result.

P Wasow: Well, there's no scope on the face of the profit and loss to actually show significant items like we once did. So we kind of put EBITDAX there as a proxy for operating cashflow, and then separately report what the underlying profit is, and then report what the items are that we consider to be significant in determining what's underlying and what's reported. But they're not measuring the same thing.

Question: (Andrew Blakely, Macquarie) It's obviously a subject that's been in the press quite a lot, in terms of Banjar Panji, and I see there's nothing on the slides but there's quite a lot of information in the actual accounts. I was just wondering for the non-lawyers amongst us, if you could kind of just explain exactly what the current status was and what you were accounting for?

P Wasow: We have a monthly process which reassesses information that has come to hand in the previous few weeks, and then we compare what our current estimates are against the provision. And that process during the course of this year and again at the time when we had to complete the accounts, led us to believe that the provision that we made at the end of last year, is still broadly in line with our current estimate of what the total costs will be. Now, some things have gone up, some things have done down, but the board is satisfied that that process is yielding a result, which is close enough to the previous provision that no adjustment was required.

Question: I'm just reading the statement that the resolution of these uncertainties may ultimately be on a different basis from presently assumed, which could result in costs borne by Santos being significantly different to the current estimates. Is that up or down?

P Wasow: Well, what that's saying is that the point estimate that we have in the accounts is simply our estimate of the most likely case. But if you do a probability distribution of the potential range of outcomes, it would be quite dispersed. It wouldn't be just all around one point, and so we're saying that the assumptions, which are outlined in the statements are important in formulating what we believe will be the best estimate in that range of possible outcomes.

Now, if those assumptions prove to be false then another point on that distribution could materialise. I can't tell you what the probability of



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distribution dispersion is, because I'm not even sure it's capable of being calculated.

J Ellice-Flint: It's both up and down.

P Wasow: It's both up and down, yes.

Question: (Stewart Baker, Morgan Stanley) Just a follow on question on Mutineer and Exeter and looking at the potential performance next year, if phase four is successful there. And if I run those numbers out, it would appear that by the end of 2008 you will have produced what was originally the 60 million barrels, I think. And that does imply what could be quite a sizeable reserve upgrade, probably something in the order of 10 or 20 million barrels. Is that a fair assumption?

J Ellice-Flint: I'd play it quite conservatively. I'd rather be on the conservative side than rush into that. We do our reserves once a year, but you're right in those calculations. But I think that the big thing there is the efficiency of the sweep of the water drive, the recovery factor is very high.

Question: (Mark Greenwood, JP Morgan) I just wanted to make some clarifications with regard to the capex estimates you've got on that slide. Are they excluding or including the exploration spend?

P Wasow: You're referring to the reference slides, Mark?

Question: Yeah, slide 15, the \$1338.

P Wasow: Yes, that includes exploration.

Question: Was it \$129 million of exploration, so they're included with those bars there for each of those areas, is that right?

P Wasow: That's right. If you look at slide 45 in the backup, it details what the \$1338 comprises.

Facilitator: At this stage, there seems to be no further questions.

A Seaton: Alright, well if that is all, then thank you all very much for your time, and we'll end the call there.

J Ellice-Flint: Thank you very much. See most of you next week.

[END OF TRANSCRIPT]