

2010 Interim Results Transcript – 26 August 2010

David Knox - Santos - CEO and Managing Director

Good morning and welcome to Santos' 2010 Half year results conference call. Joining me today is Chief Financial Officer and EVP, Peter Wasow. I will make some introductory comments and Peter will go through the results in more detail. I will then close with some comments on our growth projects.

Turning to slide 2, this is our standard disclaimer and there are no changes.

Now onto slide number 4 -- we're announcing today a headline half-year net profit of AUD198 million. This is towards the upper end of the range of AUD180 million to AUD200 million that we announced to the market on 9 August. On an underlying basis, which excludes asset impairments and some other items, our profit was AUD210 million, more than double last year's result.

The major influence on our 2010 half year result was the higher product prices across the portfolio, combined with lower exploration expense since we pared back our program. These positives were offset by AUD25 million of assets impairment.

Operating cashflow was strong at AUD537 million which is up 8% on last year and demonstrates that this business continues to generate good cashflow. The Board has maintained the interim dividend at AUD0.22 per share fully franked.

Peter is going to address the numbers in more detail in his presentation. I'd now like to begin by talking about delivery of our strategy and I'm on slide 5.

Slide 5, our strategy is unchanged. It's about performance from the base, delivering the LNG projects and focused growth in Asia. In the first half we continued to make excellent progress on all strategic fronts. Production from the base was impacted by the flooding in central Australia which cost us about 2 million barrels of oil equivalent in the first half.

We also had the planned 35 day shutdown of the Baya-Undan platform combined with the Darwin LNG plant. Despite these events, one planned and one not, the base delivered a sound operational performance with stronger production in WA and Indonesia. Pleasingly our safety performance continues to improve, with total recordable case frequency rate of 3.5 in the first half.

On LNG growth, I will say more later, but progress continues with PNG LNG achieving financial close and construction is now well underway. GLNG is progressing towards an FID this year. Capacity at Darwin was expanded in the shutdown and GDF SUEZ is ramping up the project teams on Bonaparte LNG.

In Asia the Chim Sao oil project in Vietnam continues to make excellent progress and remains on track for first oil in the second half of next year.

Moving to slide 6 -- one of the unique things about Santos is our reserves and resources position. This gives us a strong platform for growth. Over the past five years we've almost doubled our proved reserves to 647 million barrels of oil equivalent. This is despite producing almost 300 million barrels in this period.

Our probable reserves have grown more than two and a half times to 793 million barrels. Based on last year's production of just over 54 million barrels, where 2P reserve lies now of 26 years.

On top of our reserves we have a significant resource base of 2.5 billion barrels. Recall that our 2C resources only fell in 2009 because we were successful in turning resources into proved and probable reserves, as is the case in sanctioning PNG LNG, or turning them into cash as was the case of Bonaparte LNG. Combining our reserves and resources, we've delivered a cumulative annual growth rate of 14% over the past five years. The growth rate in 2P reserves has been even higher at 18%.

What I'm now going to do is hand over to Peter who is going to take you through the financial results and then I'll come back with more on the projects that drive our growth. Thank you.

Peter Wasow - Santos - CFO and Executive Vice President

Yes good morning everyone and thank you David for that introduction.

The first half of 2010 certainly was an improvement on the tough first half we reported on last year. I'm pleased to report, as David said, that both the reported and underlying profits are around double the level of 2009.

Headline profits are up 94% and if you look at the chart on the right of this slide where we compare underlying profits in the two halves, we see a similar story although a little better at 121% improvement. The underlying improvement is higher because we had some asset impairment included in the reported result. These impairments largely related to Jabiru-Challis and Legendre where we've increased the end of life provisioning and with both of these assets we expect to cease production around the end of this year.

You can also see that by far and away the biggest variance has been price and foreign exchange and with all other items amounting to only a small difference and this is despite having to deal with an unplanned loss of around 2 million barrels of production due to flooding in central Australia. We also had Bayu-Undan, one of our larger profit contributors, down for more than a month for an upgrade.

On subsequent slides, I'll detail the movement between underlying profit in the two periods and then the reference slides you can find some details of the significant items for both years.

So let's turn to the next slide and an analysis of the underlying profit. Overall I think we can say that production levels held up quite well in the circumstances. We lost some minor volumes due to asset sales and also due to the expiry of the Mereenie gas contract in the Northern Territory. The biggest single impact, as you can see on this chart, was the loss of 2 million barrels of production in central Australia due to flooding and David will have a bit more to say about that later, including an image of what you can only describe as an inland sea.

But we were successful in more than offsetting field declines and planned downtime through the start up of Oyong Phase-2 and new gas contracts at John Brookes. Year on year and after allowing for the flood event, the producing assets we kept in the portfolio managed to deliver around 99% of the previous period's volume. The outlook for 2010 remains intact, with our guidance being maintained at 49 to 52 million barrels of oil equivalent.

Let's turn to the next slide and see how production manifested itself as revenue. You see here that the average selling price increased by around 8% to about AUD38 per barrel. Gas volumes were up significantly over 2009 for a number of reasons - first, we had higher production from John Brookes and Oyong as I mentioned earlier; second, we continued to build a significant third party gas business, and lastly we were able to offset some of the lost production that we

incurred due to flooding by producing from storage. So in total gas volumes actually grew by 1.2 million barrels of oil equivalent over 2009.

However, liquids volumes were down by a similar amount mostly due to the impact of flooding. LNG volumes were also down by about 400,000 barrels, as we shut down Bayu-Undan to upgrade its capacity during the half. If we combine higher gas volumes and lower liquid volumes, we can see that the gas mix in 2010 increased with had the effect of reducing the average selling price as you can see on the chart.

Turning to the next slide on production costs and we can see the main drivers of the underlying increase being a one-off increase of AUD10 million due to costs associated with the Bayu-Undan upgrade. Offsetting that was a one-off saving of a similar amount due to reduced field activity on account of the flood event and some additional costs associated with new production.

While the flood reduced costs somewhat, the effect on the cost per barrel was negative due to the overall level of production being down.

First half Cooper costs were lower due to the floods, but higher costs will be incurred in the second half as the cleanup continues and that explains our guidance which we issued with the second quarter report.

Total costs of sales of produced reserves is flat at around AUD634 million. The cost of purchased gas per gigajoule was also flat. The slight reduction in sales volumes accounts for the increase in costs sales per barrel.

Turning to the next slide, bringing all this together and look at EBITDAX. This table highlights our operating segments and I'll just pick up on a couple of points. Despite the impact of flooding, we can still report a reasonable result for Eastern Australia. While we were able to maintain sales of gas as we produced from storage, our liquid sales were affected by the flood and as a result, we had lower liquid volumes being offset by higher prices.

The Western Australia and Northern Territory unit offset the effects of higher costs and lower production from Bayu-Undan due to the increase in contracted gas sales from John Brookes and also due to higher prices. Overall EBITDAX, which is a measure of cash operating profits, improved broadly in line with the increase in selling price by around 5%.

Moving to DD&A on the next slide and away from cash profit, we also see a good result in this our largest expense item. Despite a decline in the result for the first half, we've maintained our outlook for the full year, lower production and asset sales had the effect of reducing the charge by AUD13 million due to the effect of lower volumes. The average rate has also reduced, however, this is mainly due to lower production from high DD&A rate Cooper oil which again is due to flooding. As a result we do maintain the guidance for the full year DD&A at AUD11.70 per barrel, but I'd like to remind you that even at this higher level for the full year -- that's just the first half -- this is the continuation of downward trend year on year for this expense item.

Turning to the next slide -- funding remains one of our focus areas and one in which we've made considerable progress. Let me start by saying we're committed to maintaining our current investment growth rating. This is a good objective for all investors and in particular for shareholders as it ensures that we can maintain access to capital markets as we continue to invest in transforming this Company's asset base.

Strong liquidity is also important as it ensures we can execute our plans confident that we won't be impacted by crunches in capital availability or other temporary problems. The establishment of an AUD2 billion bilateral bank facility just recently is evidence of how seriously we take prudent management of capital through the cycle. It's also a strong vote of confidence from

our banking group, as the program was almost twice over-subscribed and we had to turn banks away even after upsizing the deal. Together with other committed debt lines and cash on

hand, we've a very strong starting position and as we've shown on similar slides in the past, we maintain a number of funding options that we continue to work and ultimately if we need

further equity, then it will be issued in a way that rewards shareholders that are on the register at the time.

On that note I'll hand back to David.

David Knox - Santos - CEO and Managing Director

Thank you very much Peter. I'd now like to make some comments about our base business and close on LNG.

As Peter said, one of the major impacts on our first half result was flooding across central Australia. Let me illustrate this with a photo on slide 16.

As you know, Moomba is located in a desert. This is what the desert looked like in February this year following local rains of up to 600mm over the Cooper operational areas. These rains, compounded by floodwaters moving down from Queensland, severely impacted our operations. All drilling activity across the basin was suspended and did not recommence until late in the second quarter. During this period the strategic value of our Cooper gas storage asset was highlighted by our ability to meet customer deliveries from a combination of production and from gas storage. Consequently our 2010 Cooper gas sales revenue is not expected to be materially impacted by the deferred production.

Excluding Cooper, the Base Business delivered higher gas production in the first half driven by strong production from John Brookes and Indonesia, where both Maleo and Oyong continued to perform well.

Turning to slide 17 and continuing on the Base Business, I would like to talk about progress on our base growth projects starting with Reindeer. The photo shows construction progress at the onshore Reindeer gas plant at Devil Creek in July. Gas plant works are progressing well with all pipe rack and process equipment modules delivered to site from the fabrication yard in Thailand. Offshore the Reindeer to Devil Creek pipeline will be laid later this year. Reindeer will have a capacity of 215 terrajoules per day gross when it comes on stream in the second half of next year. Santos -- we have a 45% interest in this project.

Moving to slide 18 -- the Chim Sao project in Vietnam -- the picture shows the well head platform topside being installed on July 31. I am pleased to report the jacket and topsides were installed on schedule, within budget and without a recordable safety incident.

The infield pipeline and gas export pipeline are essentially complete and the FPSO conversion is well underway as is the drilling and completions program.

Chim Sao will have the capacity of 25,000 barrels of oil per day when it comes on stream in the second half of next year. Santos has just under a 32% interest in this project.

I don't have a picture of the Kipper project to show you as most of the action is currently subsea, with drilling of the development wells underway. The operator's estimate of first gas is in the second half of next year. Santos has a 35% interest in this project.

Now turning to our LNG growth on slide 19 -- Santos is building an LNG growth portfolio that is unique for a company of our size. We now have a significant involvement in four LNG projects. It is underpinned by our cornerstone interest in GLNG and by our significant interest in PNG LNG.

I will say more about GLNG and PNG LNG shortly, but first let me address these other two projects. Darwin LNG successfully completed a 35 day planned shutdown in the first half. The

shutdown work scope included a turbine upgrade to increase capacity to 3.6 million tonnes per annum. Santos has an 11.5% interest in this project.

Last year we added Bonaparte LNG in partnership with GDF SUEZ to our portfolio. This project exposes Santos to floating LNG technology and we are carried all the way to FID. The sale transaction completed in January and GDF has established project teams in both Perth and Paris. There are now more than 50 people working on this project.

I am excited about how our LNG portfolio is fast developing. Let me illustrate what this portfolio can deliver on slide 20. Our portfolio of LNG projects has the potential to deliver over 5 million tonnes of Santos equity LNG production by the end of the decade. What is unique about Santos' portfolio is that this LNG growth is delivered from existing discovered resources. Our growth does not rely on exploration success.

Let me make a few comments on this chart. Firstly, it assumes that Santos equity of 45% in GLNG. This is our maximum expected interest in GLNG at FID after we sell down. Second, we have included a foundation PNG LNG project of two trains only. Any expansion would be incremental to this profile. What this chart demonstrates is that it's truly transformable power of the LNG strategy which we hold.

Now let me address GLNG on slide 21. We have been making steady and substantial progress with the GLNG project. As a snapshot of where we are today, here are a few highlights. We have an optimum site on Curtis Island with room for five trains. The project is fully staffed, with over 500 people driving it towards FID. Santos is the upstream operator. We will drill the wells. This is a core competency of the firm. Rick Wilkinson will continue to lead this business and Santos' overall business position in Queensland. The pipeline and LNG plant are operated by GLNG Operations which is owned by the project shareholders. We recently announced the appointment of Mark Macfarlane as CEO. Mark and the team will deliver the FID package to the project shareholders later this year.

FEED is complete for upstream pipeline and two trains on Curtis Island. Final EPC costs will be determined in the fourth quarter. Orders have been issued for detailed engineering on long lead items such as the main LNG plant compressors and cold box.

We have a binding off-take agreement in place with PETRONAS for 2 million tonnes per annum plus a further 1 million tonnes at GLNG sole option valid until we FID the project.

We are in detailed and advanced discussions with a number of Asian LNG buyers for Train 1 and Train 2 off taker and equity in the project.

In May, GLNG became the first coal seam gas to LNG project to receive its environmental approval from the Queensland Government. The environmental approval process is continuing with a Federal Government consideration for the project. We expect a decision in October.

All cultural heritage agreements are agreed and in place. The final indigenous land use agreement required for the project was signed in Gladstone this week and the photo is shown here. This milestone sets GLNG apart from our competitors. As I say, the photo was taken at the

final signing ceremony on Monday to mark the last of 42 indigenous agreements across the whole project which stretches from Roma all the way to Gladstone and Curtis Island.

Our water management activities are improved and in place with almost 1.3 million trees planted to date. I reiterate that we remain confident that GLNG is economically robust across the range of our capex estimates. In short, GLNG is progressing towards an FID decision later this year and the first LNG cargoes in 2014.

Now moving to slide 22 -- I would like to set out for you the path to FID. The Federal Government is expected to make an environmental decision in October. Obviously, following the election result, we are unsure at this time who will form the government, but we will work cooperatively with whoever takes office to achieve the environmental approvals required.

We aim to complete further binding uptake and sell down to underpin a two train project. As I said before, we desire to go straight to binding agreements. These are complex and take time to negotiate. I know you are keen for news, but we will take the time required to get things right for the project and for our shareholders.

I'm announcing today that we expect our maximum interest in the project at FID to be 45%. We aim to do this as part of the marketing transactions which I've discussed just now.

Finally, EPC costs are due in the fourth quarter which will set us up for FID by the end of the year and delivery of our first cargo in 2014.

Now moving to slide 23 -- a focus in the upstream in the first half has been continuing with our trials of deviated drilling from pads and the progress I'm pleased to say has been excellent. We've drilled 24 deviated wells so far this year including a number of air drilled wells. Directional drilling exposes more coal which leads to improved capital efficiency. I am very pleased with the results in this area.

Our water solution is in place with 1.3 million trees planted at Fairview. The unique topography at Fairview enables us to implement this innovative water treatment solution.

Through the Fairview Irrigation Project, Santos is leading the world in beneficial reuse of treated CSG water in forests and forage crop production. We also propose to use the water for a variety of beneficial uses in the community, including irrigation, recharge of the Roma town water supply and supplying to local industrial needs.

Upstream FEED is complete and with Fluor as the preferred contractor. The upstream scope involves all the gas and associated water gathering and processing infrastructure from Fairview and the Roma field. Santos will drill all the wells as the upstream operator.

The Fairview field continues to perform well. Last week we set a new production record of 130 terrajoules per day, demonstrating the quality of the field and our staff who operate it.

On slide 24 let's briefly talk about PNG LNG. Following financial close in March the project has moved in full execution mode led by our operator ExxonMobil. Early works construction activity commenced prior to sanction is ramping up. Work is progressing well and the upstream and LNG plant location and on supporting infrastructure. Design and procurement work with a major EPC contract is also ramping up. We're continuing to target First LNG in 2014.

Our acreage position in PNG provides opportunity for further growth. Santos earns its interest in the project through our stake in the Hides field. Hides is the core of the project and contributes about two-thirds of the total recoverable project resources. We believe there is upside in Hides but we won't know until further drilling is completed. We are working with our partners to determine the optimum time for this drilling to take place.

Finally, in conclusion, the Company performed well in the first half of 2010. Our profits were higher and delivery of growth projects in the base is on track.

The LNG projects are progressing well with PNG construction well underway and GLNG on track for an FID this year.

Our financial position, as Peter said, is strong and we have made excellent progress on our funding strategy.

I would like to acknowledge Peter's contribution to Santos. This will be his last set of financial results following his decision to retire at the end of the year and Peter tells me this morning it is in fact his 17th set of financial results. I am delighted that Peter Cleary will be joining the leadership team next week. Peter, as you know, has an excellent reputation in Asian LNG markets.

Looking forward, Santos is very well positioned. Our focus remains on advancing GLNG to a final investment decision this year and delivering production from our base businesses in Australia and Asia. We're committed to doing that safely and sustainably and by doing so we will deliver superior shareholder return.

This concludes our formal presentation. I know Peter and I are happy to take any questions you might have. Thank you very much.

QUESTION AND ANSWER

Question

G'day David and Peter, I have a couple of questions. Firstly, referring to the comment you just made about operatorship - you've committed to operating the upstream component of the GLNG project. Are we to imply then that you're not necessarily wedded to operatorship of the downstream assets? Further to that question, you noted your sell down in the project would come as a result of marketing activities. Is that also to assume then that you wouldn't welcome any strategic sell down to i.e. another party within the global region?

David Knox - Santos - CEO and Managing Director

On the question on the operatorship issue, the way our project agreements are set up and the way the produce has been designed is that we at Santos are basically the company that has the best skill base for operating the upstream. We do a lot of drilling as you probably know and we've also operated in the Roma and Fairview area for about 40 years now. So we operate the upstream in a more conventional joint venture structure.

The downstream has been set up with GLNG OPL which is just an operating company. That company doesn't hold any assets but it will build and operate the plant and the pipeline and that company has a CEO who we've just announced is Mark Macfarlane and that CEO reports into the shareholders of which of course I chair the shareholder committee.

So effectively Santos operates the upstream and always will. The midstream or pipeline or the downstream will be operated by GLNG OPL of which obviously Santos right now is a 60% shareholder.

As others join the project then they're going to join the project right the way through from the coalface all the way to the export (inaudible). So anybody who joins will join right the way

through the whole chain and will hold an equal interest in the upstream as they do in the pipeline and the downstream.

Question

Okay. The second question relates to Gunnedah. I notice that you haven't included Newcastle LNG on your list of potential expansion projects. Can you comment on given that your participation in the recent Eastern Star raising, how you see that project developing or whether you see it feasible to bring that gas up to south-east Queensland?

David Knox - Santos - CEO and Managing Director

Well first of all we're very pleased with our participation both as a shareholder in Eastern Star and also as a holder of the assets. We hold about 20% of Eastern Star's shares and we also hold about 35% of the asset base that Eastern Star hold. We also in the Gunnedah Basin hold an awful lot of assets outside that partnership and we've been very, very pleased with what's proving up in Gunnedah. We have one and a half pcf or 1500 petajoules of 2P resources or reserves that have been proved up. That's been a very pleasing result.

Obviously it's very early days in how this gets developed, but the key thing in any development discussion is making sure we have quality resources. So our focus and my focus right now is on basically in proving up the resources, both in the Eastern Star operating acreage and our own operating acreage. This year I expect to drill about 25 wells in our own acreage plus the wells that have been drilled in the Eastern Star acreage. So we are proving up that acreage quite quickly and to be frank the results are looking very interesting. But we're at an early stage and obviously we'll be able to advise the market the results of those things as the drilling continues.

Question

Oh g'day. KOGAS CEO indicated this week through the media that negotiations are due to be completed on a farm end to GLNG by the end of September. I'm just wondering is that in line with your expectations and would you expect to be in a situation to provide an update at that time?

David Knox - Santos - CEO and Managing Director

As you probably know I did see the President's comments from KOGAS. Obviously you wouldn't expect me to give a running score what any particular Asian buyer might or might not say.

We're in detailed and advanced discussions with a number of Asian buyers and these are big complex agreements where we're both selling large quantities of LNG over 15 to 20 year periods,

but they're also coming into the equity of the project as I say from the coal face all the way to the export flange.

Both of these deals are big, but also they're going to be fully termed and some of the deals, not all of them but some of them require government approvals. So we will make an announcement to the market once we have fully termed deals available.

I'm not going to give you a running score on any particular comment or particular company.

Question

These are deals associated with the second train? Can we clarify this?

David Knox - Santos - CEO and Managing Director

These deals will underpin off take from a two train project. They will take full gas volumes from two trains. The buyers will take off take probably from both the first and second train.

These deals are designed to underpin a two train project.

Question

One other question on CapEx -- you'd have a very good sense of CapEx now given that the design studies were both completed for upstream and downstream months ago. This is the most important driver of the economics of GLNG, potentially the most material issue for the stock. Why are you not in a position to provide guidance?

David Knox - Santos - CEO and Managing Director

I recognise that's a bit of a frustration. The reason's a very simple one. Yes, the design's been completed so what Fluor and Bechtel and they're the two obviously, and our pipeline contractor as well. But what Fluor and Bechtel are now doing is they now know what the design looks like, they're now going out to the market to get the compressors, get all the kit, all the pipeline right. That's one aspect.

The other thing they're going out to the market is to get the labour right because a good percentage of the cost of a major megaproject such as this is labour charges.

It's only when we get those in that we will have the CapEx within a range of say plus or minus 15%. Right now we're not in that range so I don't feel it would be helpful to share a very wide range with you at this time.

What I think I can say is that across the range, which we believe is a reasonable range, then this project is economic.

Question

A couple of your competitors, BG and Conoco, have gone a bit further and said to achieve an X per cent return on a two train project would need a certain oil price. Would you be willing to provide some guidance around returns like that?

David Knox - Santos - CEO and Managing Director

No, not at this stage until I see the full numbers. The other thing that's going to be important here is CapEx is the most important, of course CapEx is absolutely critically important, but really ultimately whatever oil price you assume is also absolutely critically important.

Also, we need to really fully understand the environmental aspects of this project and make sure that before we announce anything that we have fully understood the environmental provisions that are going to be placed upon us as we go forward here.

There are still a number of uncertainties in my mind before I can give you a number which I can really say is within a tight enough range for it to be useful to you.

Question

Just a couple of questions. First of all, if we are going to see contracts underwrite full capacity of two trains, can you just talk to the train still just to FID, the first train this year. I know that you've talked previously about one this year and one next year, but why the delay and what assurances do we have that that second one is coming?

Second, on the funding options, you've gone into some detail there on some of the new areas of funding. I just wondered if you could quantify how much you think you might be able to raise from the ECAs and from the third party infrastructure ownership. And just a quick comment on, given the capital constraints that you clearly see going forward and the potential equity raising, why you are not choosing to underwrite the DRP?

David Knox - Santos - CEO and Managing Director

I will leave the last two questions to Peter, who's highly competent to answer those.

On the what we're going to sanction, as I said last year what we're going to do is we're going to sanction, it's a two train project but we're going to sanction the first train this year and then we're going to seek to sanction the second train 12 months later.

We're negotiating contracts, obviously, with our major suppliers in order to facilitate that process as well.

This, as I've described it, it's a one plus one but it's a two train project with a sanction on the first train this year and then the second train next year.

Question

What is the benefit of doing that as opposed to a two train sanction right off the bat?

David Knox - Santos - CEO and Managing Director

The key issue you've got to be absolutely confident of when you sanction trains is that you've got the full gas supply to meet your contractual obligations that you've signed up with a buyer.

Now you should have confidence that we will sanction the second train because we will have signed up with the buyers to supply gas from that second train. In order to do it, we need to have absolute confidence ourselves that we've got all the molecules in order to fill that second train.

The second thing we do, of course, is these trains anyway have a natural six month lag. When you do a two train project and do it simultaneously, you don't actually do it simultaneously. You build the first train first and then the second train comes second anyway.

The third thing is we're investing you can say something like AUD500 million to AUD1 billion. When we invest in the first train we'll be in order to set the project up so we can go forward straightaway with the second thing. Obviously the simplest one of those to understand is the pipeline which is a 42" 206lb pipeline. That pipeline is designed to deliver two trains of gas without compression.

It can be expanded to three trains with compression. So we're spending quite a lot of pre-investment money up front to facilitate that investment in the second train.

Question

So when you try to get your financing in order to be able to fund the development of two trains will that be done at the time when you sanction the first train or will you ensure sufficient cash for the first train at the time of sanction of train one and then re-evaluate your options a year down the track when you look to sanction the second train?

David Knox - Santos - CEO and Managing Director

I am going to hand to over Peter first, but fundamentally we will be placing a funding plan in place that covers our investment as a two train project. But I'll hand over to Peter to handle the funding and the capital and other issues.

Peter Wasow - Santos - CFO and Executive Vice President

First let me answer the first questions you asked on funding then I'll come back to this one about how much and up front? The first question you asked was how much do we expect to get from export credit finance and also from hybrids of asset leasing and third party infrastructure ownership.

I think it's important you separate export credit finance from the other two because the export credit finance is just another type of debt. The good thing about export credit finance is it's cheap debt and it's long term debt. I was in Washington just last week talking to US EXIM, which I think will be a significant lender to this project.

I should think that we would be able to get more than a billion dollars worth of export credit finance relatively easily based just on our procurement from countries that offer that type of facility. In addition we may also be eligible for export credit finance, or import credit finance from countries who are taking the gas.

The other group, the hybrid securities, asset leasing and third party infrastructure ownership are actually ways in which we can reduce the equity call. I am a bit loath to speculate as to the

amount of each one of those individually. But if we can get one or more of those options to work we can make a significant reduction in any potential equity call.

That's probably all I want to say on that. There's still quite a bit of work to be done but we are busily trying to track down so that we can those things locked up before FID and so that in the event there is an equity stub that we can take account of the benefits from these types of facilities.

The other question you asked in the first part was why don't we use the DRP if there is an equity stub? Our view is that the best thing we can do if we need equity is to raise it and not to do it through a DRP. If we raise it we'll do it in an entitlements issue, which benefits our existing shareholders.

If we did it through a DRP, we would just be offering to the market at the same amount of equity but over time and instead of benefiting our shareholders who have been on the register and patient, we would be benefiting people who trade around the dividend pricing period.

The other part of your question is do we fund one train or two trains and do we fund it all upfront? Our strategy is not to pre-fund debt. We will draw down debt as we need it. There's no reason for us to draw debt in advance of actually requiring it. If we are successful with the hybrid's asset leasing or third party ownership of infrastructure we do intend to exercise those things at or around the time of FID.

Question

Thank you, gentlemen. I just want to confirm, David, that PETRONAS has given you approval to sell down more than 9% in the project?

David Knox - Santos - CEO and Managing Director

Yes, obviously. A good question. As part of the bringing in new partners into the project it's totally my style, but it's the right thing to do is to make sure that PETRONAS are fully supportive. So as part so this deal, yes they are fully supportive of doing this.

Question

And that's more than one buyer?

David Knox - Santos - CEO and Managing Director

Well as I said, I don't want to speculate but certainly we are talking to a number of parties.

Question

Just a further question, you talk about binding off-take agreements, but you also mentioned the requirement to prove up reserves, which is certainly important from a lender and from the market and buyer perspectives. What form will these binding agreements take for the second train, let's say when at the moment the reserves aren't necessarily there to support it? I mean

can we be looking at option agreements, letters of intent or are you talking about firm MOUs? What would you be looking for?

David Knox - Santos - CEO and Managing Director

The off-take agreements become binding on FID. So these are binding agreement on FID. So you've got to have a very high level of confidence that you'll deliver those contracts on FID. Obviously, you know, in this particular case because we're doing a 1 plus 1, the FID is train one, triggers the train 1 underpinning contracts and the FID of train 2 will train the underpinning train 2 contracts.

Question

But presumably train 2 is 12 months later?

David Knox - Santos - CEO and Managing Director

I'd settle for 12 months later, yes. It would be great if we do it a bit quicker than that.

Question

And just one last one, sorry. Just on the agreements in place with PETRONAS, they've got a 2 million tonnes per annum MOU plus a 1 million tonne option?

David Knox - Santos - CEO and Managing Director

No, not MOU, binding.

Question

Binding, sorry binding agreement?

David Knox - Santos - CEO and Managing Director

A big difference between the two, as you know.

Question

Okay, but I guess what I'm getting at is, you're saying that that's now split over the two trains and not just the first train only?

David Knox - Santos - CEO and Managing Director

Well when - each train right now has 2.6 million tonnes in it. So obviously we've got a bit of a stub currently of either 0.6 or 1.6 depending upon whether we extract the PETRONAS option in the first train and then the full 3.6 million tonnes in the second train. So these are all part of the discussions as to how off-takers, combined with PETRONAS would like to take their volumes over the two train projects.

Question

Oh hi guys. Just first question to clarify I guess what's been said before and the 15% sell down. Will you only sell down the full 15% if it underpins two trains worth of volumes because then you won't sell down the full 15% if you only get one train volumes?

David Knox - Santos - CEO and Managing Director

Yes the concept which we are working on is basically that the gas buyers come in, they offer us high quality, LNG off-take contracts and they take equity in the project from the coalface all the way to the export patch and it's a two train.

Question

Right, so you're ruling out the potential to just sell down 15% and only have one train's volumes worth?

David Knox - Santos - CEO and Managing Director

That's certainly not where we're heading right now. As I say we are seeking to underpin a two train project through this process.

Question

Okay and just curious I notice you still have the 3.6 million tonne capacity guidance. I just wondered now that you are further through the feed process if you see there may be a bit of upside to that number?

David Knox - Santos - CEO and Managing Director

Yes, it's a continuous issue we have, especially with the project team. The answer is yes. It very much depends upon the assumptions you use. We are probably being a little conservative with our temperature assumption for example that we run in the plant and some of our downtime assumptions.

But you're better being slightly conservative than being overly optimistic and not being able to make your commitments. So we're probably slightly on the conservative yes. Then historically LNG trains tend to de-bottleneck between 5% and 10% within the first few years.

Question

Okay and this last question - thanks and just a last question. I wonder if you can just give us a bit of an update of what's happening at Roma Shelf maybe in terms of flow rates or just what you've been seeing there?

David Knox - Santos - CEO and Managing Director

Roma and the Roma field we've got two pilots on right now, we've got a couple of more pilots that are about to start up. They're performing as we'd expect probably a bit better than we'd expect. We're continuing to drill appraisal wells broadly speaking to test the limits of our reservoir that we have there.

But the Roma prove up has gone very well in certain areas it's gone extremely well. So obviously what you don't want to do and this is important in (inaudible) you don't want to over-invest in kit on the ground until you need it. So we're judging our investment so that we bring on the Roma field as and when we need it.

When we start up GLNG in 2014 a good percentage of that gas will come from our existing Fairview field and then we'll start to bring Roma on over the subsequent four to five years time frame. By late in 2020, 2025 it will switch and the majority will start to come from Roma. So we're talking a very long time frame here as we drill out.

Question

Good afternoon, gentlemen. A couple of questions if I may. The first one related to Peter I guess with the funding for GLNG. One of the options you haven't mentioned is the milestone payment that you will get from PETRONAS on the second train. Should we take anything into that or is that still very much active?

Peter Wasow - Santos - CFO and Executive Vice President

Oh you shouldn't read into it. We always assume in our funding plan that we have a base business that's delivering cashflows and we don't talk about that as part of the funding plan but obviously it is. All our agreements are part of that.

Question

Okay. In terms of the CapEx guidance, Peter, in terms of when that gets given out, will that be for one or two trains?

Peter Wasow - Santos - CFO and Executive Vice President

Well we can be more definitive about the one train because we'll have a better understanding later this year about the field development plan for the first train. Because we still haven't got to

the point where we have sufficient reserves for the second train we need to be a little bit, well we have to be a little bit more uncertain about what the upstream cost will be.

So we will probably - we'll give guidance for the second train but the first train will be in a narrower band.

Question

Okay.

David Knox - Santos - CEO and Managing Director

What I am very much hoping to do, is that where we can we will have the second train reasonably well priced when we sanction the first train from Bechtel. So we should have a reasonable handle on what they're going to charge us for that second train. It'll obviously be subject to escalation and things but we'll have a good handle on that.

As Peter says, we will need to work very carefully as to how, what the additional wells we have to drill in order to supply and how much that will cost and how we do that. But we'll have a good handle on what the actual train costs. As is blindingly obvious to everybody the second train is going to be very strong economics as an incremental project on top of the first. Not the least reason for which being that there will be no additional midstream costs.

Question

Yes, sure.

David Knox - Santos - CEO and Managing Director

We are pre-investing quite considerably in that first train investment decision for the second. You know whether it be the pipeline, whether it be the land on Curtis Island, whether it be the way we are setting up the other stream fields. There's a lot of pre investment going in to facilities.

Question

All aright. David, a final question then. Is there any update on collaboration discussions because when that news hit a month or two ago you did release something that led to the conclusion that there was some discussion, so any update on that?

David Knox - Santos - CEO and Managing Director

You know, as I said and I think everyone on the line will know that Santos and myself in particular we have been very much on the positive foot on collaboration. We've always believed it's the right thing to do and it would improve the capital efficiency and show the shareholder return on these projects.

I still believe that. The issue for us now is we are now really very close to FID approaching it fast. This time I am not closing the door on discussions etcetera but it looks to me as if it is going to be

very hard to be able to announce anything prior to FID. That's where our focus is at present. We will be able to continue collaboration discussions in the background.

But, you know, it's hard to see how we can do something prior to FID now when we are so close and that's where the focus is.

Question

Morning gentlemen. Just some more questions on GLNG, not surprisingly I suppose. On the equity sell down to 45% as a maximum, what would be the minimum ownership position that you would consider and what are the sort of factors in the equation that might drive you to sell more than the 15% for example?

David Knox - Santos - CEO and Managing Director

The obvious factor that would drive us to do more is if it's in the shareholders' interest to do so, that would be the one factor. The other thing I think comes with the high degree of confidence that we will remain the largest shareholder in this project. So probably those two things.

What we're seeking to do is make sure we introduce really high quality partners into the project that strengthen the venture, provide us with underpinning off-takes and basically allow us to move forward on a two train basis with confidence. That's what we are working to do. And 45% is a good guide of where we believe we will end up but there is a possibility that we could go a bit lower. But we'll always remain the largest shareholder in the project.

Question

Right, well sort of a follow on question or a related question is, does that presume or include or exclude a presumption that PETRONAS may sell down some pro rata or are they going to remain there at the 40% level?

David Knox - Santos - CEO and Managing Director

I feel the key thing obviously as you'd understand this is a big partnership. So anything we do in bringing in new partners is done in conjunction with PETRONAS or certainly with their support and potentially in conjunction with them as well.

Question

Thanks gentlemen a couple of questions again about GLNG. Firstly on the environmental approvals, obviously this has been held up in Canberra and with the current political situation that might be delayed even further. Can you just give us an update on what communications you are having with the bureaucrats in Canberra around the process and whether EIS is being properly looked at despite all the delays?

Then sort of the second one related to that. I mean it looks like that's holding back yourselves and the BG Group's project at about the same time. So it's looking increasingly likely that you

might both try and hit FID at about the same time and be off and running at about the same time.

Do you see any issues there with these two big projects both trying to crowd into the market for equipment, labour, space, all the rest of it at the same time?

David Knox - Santos - CEO and Managing Director

Thanks for the question. I think on the issue whether the EIS is being held up? Right now it's not being held up because obviously it's a very, very large EIS and we are currently working flat out with the bureaucrats who are still obviously at their desks and working hard.

So right now that's not a challenge for us at all. The scale of the EIS is big though and clearly we have to address all the issues of which the largest issue is water management. But we're in a very good place to really tackle that issue due to the fact that we've got the irrigation scheme up and running on Fairview and with the trees etcetera, etcetera. So we're in a very strong place to tackle that.

But the discussions are still ongoing with the bureaucrats. Obviously there does come a point where we need to engage with the Minister, but we're well away from that point right now as the bureaucrats go through the process.

As far as BG and ourselves being in the same time, I can't comment on BG's timeframe. I know that for ourselves we need EIS approval. We're seeking additional buyers in order to underpin the two train project. It's very important as we run out to FID. The other thing is I think really worth noting and I said it in my talk is we have all the Indigenous Land Use agreements in place for this project. That's also a pre-requisite for FID.

We have all, we've done 42 of them now and probably potentially it's the largest set that has been done in a resource project in Australia because it covers such a huge area, all the way from Roma, all the way to Curtis Island. Of that there's seven Indigenous Land Use agreements and obviously a very large number of other agreements around cultural heritage and how we are going to manage it.

They are all in place. So I think it's not just about getting the EIS over the line here, it's about getting the whole thing over the line and it is a massive project and as I say we are absolutely committed to making it happen and I've got a great team on the job. That team comes from the fact that we have been operating in the area for 40 years. That's not something anyone else can create.

Therefore I think we have a real chance at pressing forward. Now on the resources, the resources are absolutely an issue. However a couple of comments there, one, and when you upstream, people sometimes worry about drilling. We have 11 drilling rigs operating right now, that is more than enough for the whole project, so that is completely covered.

Fluor obviously are a very major engineering firm they will be contracting the labour in order to build the compressors, pipelines etcetera in the field and they obviously have a very large book being a seriously major player both globally but also in Australia. Bechtel have the contract for both us and the BG project, as I understand it. Therefore clearly Bechtel will manage the labour to maintain good productivity right the way across.

So I think having the same trying to do both it won't be so much a competition as how do we manage the labour between the projects. So I do see labour is going to be a really key factor

here but I believe that with the set up we have we will be able to manage it through the next four to five years.

Question

So you don't see I guess issues in terms of certain gates to get through where if BG are off and running first it holds you up or vice versa and therefore you sort of trip over each as you try to build these --

David Knox - Santos - CEO and Managing Director

It's not going to be like that. Because we have -- we don't cross over each other except in a few areas. Obviously one of the key things are our site is the first in the river. We basically don't need to very much or almost no dredging to get on with our construction. Others are in a different place they need to get that done.

So I would say we are in charge of our own destiny and it doesn't concern me where the others are at all. We are absolutely pushing forward and have a really superb of contractors in support of us and we have the drilling covered, which some people sometimes worry about.

Question

Hi, gentlemen. Just a couple of questions. Firstly on GLNG will you look to have 100% of the capacity underwritten by sales contracts or will you be willing to have something less than that. And secondly on PNG LNG just wondering if you could comment on what you see as the optimal timing for appraisal drilling at Hides.

David Knox - Santos - CEO and Managing Director

On the underpinning of the trains obviously the first train we'll seek to have a very good percent of the trains, but whether it's 100%, you know, we will probably aim off a little bit. But we'll seek to have a very good percentage. What typically happens under these contracts anyway is where you do have spare capacity either through de-bottlenecking or over performance from the plant, is that tends to go to the existing buyer set, that's historically how it's been managed.

On train 2, obviously we will be seeking to tie up as much of that volume as we can, but from the economics perspective is we don't need 100% because it is incrementally a very strong economic project we don't actually need that. But we will be seeking to tie up a good percentage of it through these negotiations that we're currently conducting.

On Hides, the earlier we can drill the Hides, whether you call them development or appraisal wells, then the sooner that our operator Exxon can consider whether there is additional upside which could be brought into the existing project. So we, Santos, will support a reasonable, anything that we can reasonably do to accelerate the drilling of the Hides' field in order to demonstrate there are additional resources. But that has to be managed in line with the whole big project. But we will be supportive of operator recommendations to bring that forward if they can.

Question

G'day there, guys. Just, David, you might have been asked this earlier, but just to confirm if you don't get another off-take deal by the end of the year will you still be able to go to FID on train 1, just by what you've got with PETRONAS?

David Knox - Santos - CEO and Managing Director

Yes we have an underpinning contract with basically 3 million tonnes with PETRONAS, yes. We'd obviously like to sell the other 0.6 or half a million tonnes if we can. But we do have an underpinning contract with PETRONAS. In order to do the train 1 investment though we have got to have good confidence that this is a two train project. That's why we're seeking the underpin on the second train.

Question

But you could still go to FID on one train without another contract, is that right?

David Knox - Santos - CEO and Managing Director

Yes we could from the perspective of gas mining; we have a binding off-take on the single train.

Question

Okay, terrific. Have PETRONAS given you much of an indication of whether or not they'd be prepared to take that extra 1 million tonnes if you aren't able to get that second contract by the end of the year?

David Knox - Santos - CEO and Managing Director

Yes it's at our option, not at PETRONAS', so it is at GLNG's option.

Question

Hi, guys, thanks for the update. Two questions, firstly you talked about Gladstone LNG and evaluating project economics. I was just wondering if you can talk a little bit further on what metrics you use and in the fourth quarter of this year will it be train 1 on a standalone basis that you will be evaluating and is there a hurdle rate?

Secondly with such wide cost bands on GLNG, how are you going about negotiating the price for the equity stake and also how are customers valuing that equity stake?

David Knox - Santos - CEO and Managing Director

Well starting with the equity stake, the way we obviously sell equity is in the conventional manner. You open a data room and they evaluate the value of those assets and there are quite a number of data points for the value of coal seam and gas assets in the market right now, of which of course the Shell Arrow is the latest one. You know there is a reasonable common methodology there as to how you value equity.

On the economics, we will be using what the market, everyone on this phone would consider a reasonable set of assumptions.

Peter Wasow - Santos - CFO and Executive Vice President

Yes, but I think specifically, in response to your question we wouldn't invest in it, if the pattern, as David has said, one train was a second train coming a year later we wouldn't invest in the first train unless it was delivering a rate of return which was greater than our cost of capital. Because you know, without the certainty of the second train you can't take the step of investing in the first unless it at least wipes its nose; even including all the pre-investment we're making in the second train.

In terms of what hurdle rate we would use that's something most companies wouldn't disclose.

Question

Hi, David and Co. Just on the FID date for GLNG, would it be fair to say, given everything you've spoken about with trains 1 and 2, that you'd expect to announce a binding heads of agreement ahead of FID on train 1? So that's come the new binding heads of agreement?

David Knox - Santos - CEO and Managing Director

Yes we clearly would like to do that, yes.

Question

In regards to Bayu-Undan you have done a maintenance period to uplift capacity, what would be the final capacity of that particular plant?

David Knox - Santos - CEO and Managing Director

You know it's brought the capacity up to 3.6. I think it increased it by about 0.1, 0.15. Now of course over time, they have put new gas turbines in there over time, it may lift a little further as it starts to really run smoothly. But they've brought it up to 3.6 which is of course exactly the same as we are running off on GLNG. That's why we said 3.6 there as well.

Question

But you are talking about potentially de-bottlenecking train 1 to get it up to circa 4 million tonnes so is there - given GLNG will be a cookie cutter of Bayu-Undan, I understand is there a possibility to lift Bayu-Undan further?

David Knox - Santos - CEO and Managing Director

You know there are various things you can do in plants to lift them up, putting coolers on the front, putting inter-coolers inside the process as well. You can do the lift things and you just have to decide how much they are going to cost with your particular plant layout. One of the factors that we will find out on Gladstone is how it really performs on that particular site.

We've made certain assumptions around down time and shipping channels and that sort of as well and a certain ambient temperature assumption. These are - what tends to happen in the world as you know, that if you say it's a 3.6 million tonne train and you find after two or three years there's a 5% to 10% of natural de-bottlenecking has taken place, yeah, you've done some tweaks as well.

Question

So have you actually achieved that now with the Bayu-Undan plant?

David Knox - Santos - CEO and Managing Director

Well we are now up to 3.6 million with Bayu-Undan and we'll just see how it settles down with these new turbines and see how they really perform. So far it's been good but we have only had them on for now about three months or a bit less. So it takes a bit of a wider window than that to really decide as to how it's going but so far it's been going very well.

Question

So then it's possibly fair to say that the train 1 we should really be looking at 3.6 million tonnes and holding off on the de-bottlenecking because I understand they are a cookie cutter plant so the capacity is de-bottlenecking is similar?

David Knox - Santos - CEO and Managing Director

My judgment, is that we will get some creep on it. It will move up over the first few years, all other things being equal.

Well just one more question and then we will thank you very much for your time.

Question

Just to clarify if you take this FID alter in the year will you disclose the CapEx not only for a single train but a two train project?

David Knox - Santos - CEO and Managing Director

Yes we will need to give you some - we will obviously disclose the CapEx on the first one but we'll need to give you some guidance on the second train, so you can sensibly build a good

economic stance. So we will be doing that, yes. It will probably as Pete said, it won't be plus or minus 10% but it will have a reasonable range on it.

Then also the other thing is in coal seam gas there is follow on CapEx as well which needs to be understood. And there is in other LNG projects as well. You know you have to put compression which is what North West Shelf are doing right now but it's not actually any different from others. But we will some guidance on that as well.

Question

Very good. Just on collaboration, David, you mentioned, I think you gave some guidance historically on the type of CapEx savings if all these projects came together, but that was probably 18 months ago or two years ago now. Could you give us an update on what CapEx savings might be if we saw some collaboration downstream?

David Knox - Santos - CEO and Managing Director

Well I still believe that you'd be certainly talking a billion dollars if we were able to combine.

Question

Yes.

David Knox - Santos - CEO and Managing Director

But you can only get these savings if you combine before you have got too much steel on the ground. The savings get a bit smaller after that. You can still see big benefits though in sharing pipelines and sharing operatorship etcetera. So I still believe it's the right thing to do even after FID, but probably the savings go down a little bit.

Question

Would that be a billion dollar savings to GLNG or a billion dollars across the two.

David Knox - Santos - CEO and Managing Director

To share. This is from coming together and sharing.

Question

Okay a share. Yes, okay, thank you.

David Knox - Santos - CEO and Managing Director



Thank you very much indeed. Thank you everyone and we'll see some of you over the next few days, thank you very much indeed.