SANTOS 2011 FULL-YEAR RESULTS
17 FEBRUARY 2012
CONFERENCE CALL TRANSCRIPT

Operator

Thank you for standing by and welcome to the Santos full year results webcast investor conference call.

(Operator Instructions).

I would now like to hand the conference over to your first speaker today, CEO of Santos Limited, Mr David Knox. Please go ahead, Mr Knox.

David Knox - ***Santos Limited - CEO and Managing Director***

Thank you, Jacob. Good morning and welcome to Santos' full-year results conference call. Joining me on the line today is my CFO, Andrew Seaton. It is a pleasure to talk to you about a year where we delivered what we promised. I'm going to make some introductory comments and then I'm going to hand over to Andrew to take you through the numbers. I will then come back with some comments on our exciting opportunities in 2012. Slide 2, this is our standard disclaimer and there are no changes to it, so I'm going to quickly move on to slide 4.

2011 was about delivering what we committed. All of us at Santos are passionate about safety. I'm very pleased to report that we finished 2011 with the best performance in the Company's history. Production was within our guidance range, but at the lower end, following weather interruptions in the first half.

Project delivery in the base business was strong with all four projects delivered on or under their sanctioned budgets. Three were also delivered on time, with only Wortel missing the schedule commitment by 30 days. These projects will drive our production higher this year.

Although it seems a long time ago, it was only on 13 January last year when we sanctioned the 2-train GLNG project. Approval of GLNG was a major milestone and delivers on the strategic vision to transform Santos into a significant exporter of LNG. Construction at GLNG is progressing well and we are on track for first LNG in 2015.

It was also a good year with the exploration drill-bit, with both Zola and Finucane South being successful discoveries. The Fletcher Finucane oil project was sanctioned a little more six months after the discovery of Finucane South. This is an industry-leading transition from exploration to development.

We continue to manage our portfolio, buying Eastern Star Gas and selling 20% to TRUenergy and also selling our stake in Evans Shoal. As Andrew will talk about more, our balance sheet is in very good shape with $7.5 billion of funding capacity, including the US$1.2 billion of Export Credit Agency debt facilities announced just prior to Christmas.

Turning to safety in more detail on slide 5. Operating safely is something that all of us at Santos are fully committed to. We look at safety through two lenses. The first lens is about keeping people safe -Keeping them free from injury and free from accident. The standard measure that's used throughout the industry for this is Total Recordable Case Frequency. I'm proud to say that 2011 was the lowest rate in our Company's history. The second lens we look through is process safety and by that I mean, simply keeping our hydrocarbons in the pipes. What we're seeking to do here is to minimise the risk of low probability, but high impact events. The chart shows our progress on safety critical compliance, which is, as you can see, strong.

Moving on to slide 6 and the financials. This slide sets out the key financials and I think it's a good set of numbers. Profits were up, both on a reported and an underlying basis. Operating cash flow close to $1.3 billion was again strong. We have announced that our Dividend Reinvestment Plan will be active for 2011 final dividend and will be underwritten. Moving forward, our present intention is to maintain the DRP with a 2.5% discount, but not to underwrite the DRP for further periods. Andrew will talk more about the numbers shortly.

I would like to move to slide 7 and I'd like to briefly talk about the oil and gas industry, not just here in Australia, but also globally. As an industry, what we have to do is raise the bar, to ensure that we operate to the highest standards. We must apply the very best practices in our operations, wherever they occur in the world, in order to deliver on our ambitions. I'd like to say that Santos and the team in the company and everybody who works for us is absolutely committed to working with local communities and in the case of CSG, local landowners and farmers. I recognise that we are guests on the land and we have to ensure that we minimise our footprint and that we operate in a sustainable manner.

What I'm now going to do is hand over to Andrew, who is going to take you through the financials in some more detail. Thank you, Andrew.

Andrew Seaton - ***Santos Limited - CFO***

Thanks, David and good morning to all. I will run through the key drivers of the profit result, outline our funding position and then review 2012 guidance. Turning to slide 9. Production of 47.2 million barrels of oil equivalent was 5% lower than 2010. Taking in account the 15% GLNG sale and a lower Maleo net entitlement, due to a higher gas price, the like for like result was actually within 1% of 2010. Downward pressure came from natural field decline, planned maintenance outages, cyclones in Western Australia and flooding in the Cooper Basin. On the positive side, new projects start-ups, including Halyard, Spar and Reindeer in Western Australia, also Chim Sáo in Vietnam, contributed to the result. Importantly, 2012 production will increase to between 51 million and 55 million barrels of oil equivalent, as we see a full year's contribution from these new projects.

Moving now to slide 10. Sales revenue increased by 14%, reflecting higher realised prices across all products, offset by the stronger Australian dollar. In terms of product mix, you can see the increased proportion of oil in 2011, which will continue to grow in 2012, due to Chim Sáo production. As David will mention later, this oil leverage will further increase, as our LNG projects are delivered and as domestic gas pricing moves towards oil linkage.

On slide 11, cash productions costs have been essentially flat over the last four years. On a dollar per barrel basis, given our lower production, unit costs have actually increased at around 6% compopund per year. This is a credible result against an industry backdrop of escalating costs and reflects management's commitment to innovate and control costs across the business.

Looking forward, the expected in costs in 2012, can primarily be attributed to the Chim Sáo oil field, where we'll be utilising a leased FPSO and also, the new Reindeer and Devil Creek facilities.

Looking now at the profit result on slide 12, reported and underlying profits have increased by 50% and 20%, respectively. Suffice to say, the base business performed well in what was a challenging year. Also, this slide demonstrates our recent portfolio management approach, where we've generated higher reported than underlying profits, via several significant and strategic asset sales. Key drivers of the headline profit are presented on the following slides.

The chart on slide 13 shows that the most significant driver of the higher profit was higher realised commodity prices, notwithstanding the stronger Australian dollar and lower volumes. The effective tax rate increased from 31% to 34%, primarily due to higher non-deductable overseas expenses. Moving forward, we expect the tax rate to remain at or around 2011 levels. Higher net finance income resulted from higher cash balances and the capitalisation of interests to development projects. We also recorded a larger gain on sales of assets and lower net impairment write-downs. A further breakdown of the significant items is shown on the next slide.

Slide 14 details net significant items of $300 million, including a net $408 million after tax gain, primarily due to the sale of GLNG and Evans Shoal interests.
A net impairment charge of $102 million after tax has also been recognised with the key contributors being Bangladesh, where we've taken a $79 million charge, primarily relating to Sangu and this follows limited success in the recent drilling program. Also, Kipper, where we've recognised a $20 million pre-tax or $12 million after-tax charge, reflecting the project delay. Also, the mercury issues.

Slide 15 illustrates the consistency in operating cash flow over the last five years with 2011 broadly in line with 2010 cash flow. Clearly, this reliable cash flow is important for our overall funding mix, as we continue with a significant growth agenda, as illustrated on the next slide.

On slide 16, probably not surprisingly, 2011 total cap ex of over $3 billion was a historical high for the Company. Our guidance is for a further increase in 2012.
Our growth continues on many fronts, with the Fletcher Finucane project now sanctioned in WA, the mega GLNG and PNG LNG projects making good progress and a renewed focus on the Cooper Basin as rising gas prices facilitate future development opportunities. David will talk to each of these in more detail later.

Turning to slide 17 and it's clear that our balance sheet continues to be very robust. In December, we secured US$1.2 billion in Export Credit Agency supported debt facilities, meaning we now have more than $7.5 billion of available funding capacity and this includes $3.3 billion cash at year end. Maturities on drawn facilities are minimal after 2017, at which time, we have the option to redeem the 1 billion Euro hybrid notes, which otherwise would mature in 2070.

Looking at a summary of 2012 guidance on slide 18. I've already spoken to higher production, driven by new projects, which then directly translates into higher production costs. The increase in DD&A reflects rising unit development costs and higher estimates of future abandonment costs. This shows that we're not immune from the cost pressures, which are evident across the resources sector, but as I said earlier, cost management is a key area of focus for us, as we look to drive productivity improvements across both capital and operating costs. Capex is in line with the guidance we previously gave in November and is weighted towards delivering the GLNG and PNG LNG projects, whilst continuing to invest in the base business. On that note, I'll hand back to David.

David Knox - ***Santos Limited - CEO and Managing Director***

Thank you very much, Andrew. I'm now on slide 20, which is going to be familiar to you. Our strategy is unchanged. It's about performance from the base, delivering the LNG projects and focus growth in Asia.

On slide 21; let me talk about what this strategy is delivering for shareholders. Our strategy delivers growing production with a target of 80 million to 90 million barrels by 2020. This growth is from projects which either on production, sanctioned or are very likely to be sanctioned. It does not include the upside projects, which are shown in the top box on the right, or exploration. As you can see, our production growth starts now and it continues right through the start of PNG in 2014, followed by GLNG in 2015. Since I showed you this chart and at our investor day in November, we have moved Reindeer and Wortel from sanctioned into production and Fletcher Finucane from likely sanction to sanctioned.

Let's look ahead at the year, on slide 22. 2012 is going to be an exciting year for us, with major milestones across all three of our strategic themes. I'd like to talk about these over the next few slides, starting in the West on slide 23.

Santos continues to build a material business in the west, with our largest exploration campaign ever planned for this year. For the first time, we have three offshore-operated rigs, drilling the Browse and Carnarvon Basins. Let's go the Browse first, where we've got a fantastic street address. Our acreage, all Santos operated, is surrounded by the Browse, Ichthys and Prelude LNG projects. We will be drilling the Crown prospect in WA274-P later this year with the Jack Bates deep-water rig. We are also processing new 3D seismic on the Burnside discovery ahead of an appraisal well, which we have planned for next year. In the Carnarvon Basin, we plan to the drill the Winchester exploration well with the Ensco 109. Winchester has a geological setting similar to the recent Zola gas discovery. Also in the Carnarvon, the jack-up Nan Hai 6 will be drilling three Fletcher Finucane development wells.

Turning to slide 24. Having discovered Finucane South last year, we sanctioned the oil project in January. The project is off to a good start. Major procurement contracts have been placed and engineering is well advanced. Fletcher Finucane takes advantage of our existing infrastructure at Mutineer-Exeter, and importantly extends the life of the Mutineer facilities by circa four years and increases their reserves.

Turning to Cooper on slide 25. As demonstrated by the 500 petajoule gross reserve booking in 2011, there is lots of life left in the Cooper. To unlock the Cooper's true potential, we will drive down costs, particularly in the area of rigs and multi-pad drilling. Initial results in the program have been very successful and contributed to the significant reserves upgrade we saw in 2011. We have completed our first two-well pad, with tie-ins scheduled for March.

Operations, as you can see in the photograph, have now commenced on the six-well pad. The photo shows the sanctioned drilling rig on the first well on the pad. Two slots can be seen to the left of the rig, with the remaining four slots covered by the rig. Planning is underway for a larger pad of up to 20 wells by the year-end 2012, which will include the trial of simultaneous drilling and production operations to further improve our efficiency.

Turning to Cooper unconventional, on slide 26. In December, we drilled our first dedicated shale well. This well is located nine kilometres from the Moomba plant, highlighting how close we are to the existing infrastructure. Thickness and property to the shales including the gas content of the REM shale intervals were consistent with our pre-drill expectations. Cores taken from the intervals, along with shale specific electric logs are being used to optimise the design of the well simulation activities. Flow testing design is currently being undertaken by world-class experts from Halliburton, targeting the three shale zones. Flow testing scheduled for March with microseismic monitoring will be used to map the results to inform future development planning. We are also continuing to assess the unconventional zones below the shales with four wells planned for this year.

I'm now going to turn to GLNG on slide 27. One year into the project, construction of GLNG is progressing well. The budget is maintained at US$16 billion from FID until the end of 2015. Following FID, the project moved quickly into the build phase. I'm pleased to report that we're off to a good start and on schedule for first LNG in 2015. More than 1800 people are working directly on GLNG. Clearing of the LNG plant site on Curtis Island is now complete. Bulk earthworks are well advanced and we've laid the first concrete for the train-1 compressor foundations. Work continues on the detailed engineering for the upstream service facilities and the gas transmission pipeline. Mobilisation to the field will ramp up in the first half of this year. All our drilling rigs are currently operating, following the short weather interruption that occurred earlier this month.

Now on slide 28, it shows an aerial view of the GLNG site on Curtis Island. Quickly, I would just like to very briefly take you through a few highlights from this site. As you look at the photograph, on the top left, that is where our LNG offloading jetty will be located. Moving to the right, we'll have the tanks and then on the right hand side, at the top of the photograph, the two LNG trains. Moving down the photograph, we are having accommodation facilities, both for the construction and ultimately, the control room and the permanent accommodation. On the left, you see the haul road, which goes to our material offloading facility on Hamilton Point.

If we turn to slide 29, you will see the offloading facility has made excellent progress. The facility in the foreground is a temporary one and the main jetty in the middle of the photograph and the main offloading facility for our modules is at the top of the photograph and as you can see, very good progress has been made here. In both these pictures, you will also see that wherever it has been possible, we've done everything we can to preserve the mangroves and the general view of the site.

I would now like to briefly talk about slide 30, PNG LNG. PNG LNG is progressing well, with our operator Exxon Mobil confirming that the project is on track for first LNG in 2014. Pleasingly, productivity has improved at the Komo Airfield, where significant earthworks progress has been made and the first concrete foundations have now been poured. Importantly, the Hides drilling program will commence this year, with a key gas/water contact well planned early in the sequence. The recent landslide was a tragedy for the local community. The operators' teams have been doing all they can to assist in the response and the rehabilitation work required. The impact on the project schedule has not been significant.

Turning to slide 31, this shows that real progress is being made at the LNG plant site near Port Moresby, where the construction of the two trains, as you can see, is well underway. These trains are being stick built, in other words, they're being built from the ground up on the site and you can see progress has been very good.

Turning to slide 32, focusing on our Asian growth business. Our business in Asia continues to grow and will contribute 20% of our production in 2012. Martin Eames, who runs the Asia business for us is now located in our new office in Singapore. In Indonesia, Wortel started up in January on budget, continuing a strong track record of project delivery in Indonesia. The Wortel gas is sold at good prices and extends the life of our existing facilities at Oyong. Our next project is Peluang, a tie back to Maleo and we're targeting FID for late this year. As you're aware, we're now receiving higher prices for the Maleo gas. Santos has farmed in to two CSG licences in South Sumatra. This leverages our CSG experience in Australia and our operating experience, which we have developed in Indonesia. The licences cover 350,000 hectares and up to 60 metres of coal thickness has been identified. We're planning to start our drilling operations this year. The licences are located close to existing pipelines, connected to the under-supplied West Java market.

Now, I would like to talk about Vietnam on slide 33. In Vietnam Chim Sáo started up in October on schedule and under the sanctioned budget. The base project is performing well, with significant upside unfolding. We plan to drill the Chim Sáo northwest well in the third quarter of this year. The development concept for the adjacent Dua resource is being worked in conjunction with our partner, Premier.

Wrapping up on slide 34. 2011 was a year when we delivered on our promises. Profits were up, both on a reported and underlying basis. GLNG was sanctioned, all our projects in the base were delivered. Our balance sheet is robust, with substantial funding capacity. 2012 is going to be an exciting year, both for our project delivery and with the exploration and evaluation drill bit. Our strategy is to unlock the Company's resources in a rising market for oil and gas demand in Asia and Australia.

Santos has the skills, the teamwork and the commitment to deliver on our plans profitably, safely and sustainably. I am looking forward to a successful 2012. That concludes our remarks. Andrew and I will be happy to take your questions and I'll hand back to Jacob for the first question. Thank you very much.

QUESTION AND ANSWER

Operator

We will now begin the question and answer session.

(Operator Instructions).

Operator

Your first question comes from the line of John Hirjee from Deutsche Bank. Your line is now open. Please go ahead.

John Hirjee - ***Deutsche Bank - Analyst***

Good morning, gentlemen. A couple of questions, if I may. The first relates to the Cooper infill and obviously, we saw from your reserves reports some very good reserve ads there. Can you talk through the implications for that and in particular, as your reserve ramp up in GLNG was slowed down by, obviously, the floods, could you talk about how you're thinking about the Cooper reserves in it adding to GLNGs reserves basin? How you thinking about that, from a Santos perspective?

David Knox - ***Santos Limited - CEO and Managing Director***

John, obviously we look at our reserves as in the whole of eastern Australia and right now, we have about 3000 petajoules of Santos net 2P reserves, which are outside the GLNG acreage. In the GLNG acreage, of course, we've got about, in a gross sense, 5400 petajoules of reserves, so we look at the whole picture and we were pleased to see 500 petajoules added in the Cooper Basin. As you can see, what we're doing there is continuing to use technology, principally, these new drilling rigs, multi-pad drilling, new stimulation techniques in order to really start to unlock what we believe will be an extraordinary opportunity for this basin. The shale well coming up is an important well, because it's our first well that's a pure shale well. There will be others, regardless of the result of that well.

But clearly, we have an extraordinary opportunity in front of us. We are not, as I've always said, we're not short of resources. What we now need to do is demonstrate that those resources can successfully be turned into reserves and whether that be in the CSG areas or in the Cooper Basin or other parts of eastern Australia, that's what we're really focused on. I expect the trend to continue.

John Hirjee *- Deutsche Bank - Analyst*

Okay, thank you. One final question, if I may, directed to Andrew. Andrew, you mentioned that you expect your effective tax rate to remain high. Is that because you're going to have a lot more development offshore - sorry, outside of Australia - and therefore, the tax deductibility of that reduces, or is there some other driver?

Andrew Seaton *- Santos Limited - CFO*

Yes, John, you're right. It really depends on our mix of business, but at the moment, I think if you look back at 2010, the underlying rate was probably lower than expected, because of some one off tax credits, so 2011, I'd say is more akin with our long run tax rates. So around that 34% level. 2012, we will be drilling a lot in Western Australia, so that's, from a tax perspective, quite favourable and probably slightly less focus in Bangladesh and Vietnam than we've had in 2011, but on balance, I think it will wash out.

John Hirjee *- Deutsche Bank - Analyst*

Okay. Thank you very much.

David Knox *- Santos Limited - CEO and Managing Director*

Thank you, John.

Operator

Your next question comes from the line of Mark Greenwood from Citi. Your line is now open. Please go ahead.

Mark Greenwood *- Citi - Analyst*

G'day. A question about shale gas. Back at the Cooper slide tour, you indicated that shale gas could contribute in a small way to group production towards the end of the decade. I'm just wondering, based on the work you've done to date at Moomba 191, are you becoming more or less optimistic on that timeframe?

David Knox *- Santos Limited - CEO and Managing Director*

I think, you know, Mark, what's happened on the Moomba well, which is only nine kilometres north the Moomba is. You know, the results so far, we're taking the cores, we're dissolving the cores now. The results are as we expected or as we had hoped they'd be, which is good. So that's promising. You know, we are looking forward to seeing the results of this big stimulation that we're going to do over the next few months, to, you know, see if things really do start to prove up.

However, regardless of those results, we will be continuing to look at shale and we'll be drilling - you know, we're going to plan to drill a big horizontal well in the end of this year, so what you're going to see is a significant investment, not just in shale, but in shale and also in the - trying to unlock the tight gas and even some of the deep coals that lie below the shale in the Cooper Basin. So you expect that trend to continue and as I said to John Hirjee earlier, it's really about using technology. A lot of it has been used very successfully in North America, which ultimately, will unlock these resources, but also drive down costs and you know, the rig you see on the front page of this results presentation, those are very sophisticated rigs.

Probably, some of the best in the world and we can - the key thing we can do with these rigs is we can drill multi-pads, without having to move the rig. You just move the derrick. You can move the derrick with a pipe in it and this gives us huge efficiencies, so we're very much hoping we'll be able to bring down the costs of each individual well in the Cooper, cost of the flow lines, everything else and start to unlock these unconventional resources. So I'd say I'm optimistic, but I'm awaiting the results with keen interest as to where they come in, but there's been nothing to suggest that it isn't going as planned right now.

Mark Greenwood *- Citi - Analyst*

When will those flow rates - when will get those flow rates results from this first vertical well?

David Knox *- Santos Limited - CEO and Managing Director*

I think we're planning to do this in the - end of the first quarter, beginning of the second quarter.

Mark Greenwood *- Citi - Analyst*

Great, okay. Just a follow up question--

David Knox *- Santos Limited - CEO and Managing Director*

It takes two days. It's not a half an hour operation. It obviously a bit of time.

Mark Greenwood *- Citi - Analyst*

Sure. Yep. Just a follow up question on the East Coast gas portfolio, some of your legacy gas contracts are starting to expire this year and that's going to - that uncontracted position will build as those contracts come off and new production comes online. What are your plans for that uncontracted gas? Are you looking at further contracts into LNG projects or, you know, spot sales? Or are you looking to sign up further long-term domestic contracts?

David Knox *- Santos Limited - CEO and Managing Director*

You know, we're - we continue in the market, both domestic and ultimately into the LNG, the export market, but we continue to have discussions with quite a number of buyers right now, as these contracts to run off, you're quite correct. The majority of the contracts, I think, they're nearly all run off by the end of 2017. So you know, we're continuing to have discussions. We're having discussions with multiple parties, all in parallel, right now. Some of those will be domestic and some of them will be - will obviously, perhaps, you can go to the Gladstone plant. So I expect those to continue and I think the key thing to remember is that as the largest supplier of domestic gas in Australia, historically and I think we are today, you know, we're intending to continue to supply both domestic market and the offshore export market.

It's not an or, it's an and. We've got the resources to do it. You know, I mentioned to John that we had about 3000 petajoules resources outside of GLNG acreage. Of course, that's reserves, 2P reserves. We've got a further 8000 of 2C resources, so if you add those two numbers together, outside of GLNG, Santos net has a 11,000 petajoules of 2P plus 2C. In other words, reserves plus resources at the middle of the distributions. So we're intending to participate in domestic and LNG.

Mark Greenwood *- Citi - Analyst*

When can we expect those domestic contracts to be - you know, just - you know, because, you know, there's been quite a delay in having these contracts signed up. When do you think the customers will start to, you know, to sign up?

David Knox *- Santos Limited - CEO and Managing Director*

Well, you are seeing some customers sign up. We haven't always been successful in winning the business. Others have signed. But we'll - we will continue to compete in the domestic to win that business and you've seen a couple of contracts signed up recently, so we continue to compete, to make sure we win that business. So you'll see us participating, because we can't predict when we actually will win it, but we're on the ground competing hard. I mean, it's all about, Mark - it's all about driving our - you know, one of our keys things is to drive our cost base down. It's all about the application of this technology, unlocking the resources. It's all part of that, in order to supply domestic gas and offshore gas in Australia.

Mark Greenwood - ***Citi - Analyst***

All right, thanks, David.

David Knox - ***Santos Limited - CEO and Managing Director***

Thank you very much, Mark.

Operator

Your next question comes from the line of Nik Burns from Credit Suisse. Your line is now open. Please go ahead.

Nik Burns - ***Credit Suisse - Analyst***

Hi guys. Just a couple of questions, if I may. First of all, just on third party gas purchases, I think slide 37 includes some of the gas purchases in the number there. Just wondering, in terms of the growing contribution from that aspect of the business. Can you give us any guidance in terms of outlook for how much gas you're expecting to purchase going forward and what sort of margin you're achieving on the ongoing sale of that gas?

Andrew Seaton - ***Santos Limited - CFO***

Nik, I'll take that question. I think about third party gas purchases in three different buckets. Firstly, there's the GLNG bucket, where we buy all of PETRONAS, Total and KOGAS' gas out of the Fairview and Roma fields, which we then put into domestic contracts. That's effectively a pass through for us with no profit on that aspect. Then, if you turn to Victoria, we purchase all of the gas out of the Longtom field, which we then process through our plant in - at Patricia Baleen. Now, that's good business for us. That's quite profitable. Not only do we make a margin on the gas price, but we also earn processing tolls as that gas goes through our plant, so that is very attractive business for us and that will be ongoing.

Then, the third area is really flooding related in the Cooper this year, where it wasn't just one year of flooding in 2011, it was a legacy of 2010 as well, so we actually ran down our storage position in the Cooper, through 2010, so going into '11, when the floods hit, we didn't have the storage that we would have expected, so we had to go into the market and buy gas to cover that short. Now, we're actually in a lot better shape, right now. We've been able to replenish some of our storage and our gas business in the Cooper is actually performing quite a lot better year on year, because we haven't had the same issues with flooding, so I think you'll see less purchases in that bucket to cover the market.

Nik Burns - ***Credit Suisse - Analyst***

Okay. In terms of GLNG ramp gas though, as production continues to rise from there, would we expect to see high contributions GLNG from the third party gas purchase perspective?

Andrew Seaton - ***Santos Limited - CFO***

No, you won't. GLNG will meet the domestic obligations of its existing contracts and we'll put the rest of the gas either into storage or leave it in the ground behind pipe, so we do not intend to sell any more gas out of those fields.

Nik Burns - ***Credit Suisse - Analyst***

Okay, very good.

Andrew Seaton - ***Santos Limited - CFO***

We'll just let those existing contracts roll off.

Nik Burns - ***Credit Suisse - Analyst***

Okay. Fantastic. The second question is just on the Eastern Star Gas acquisition last year. I'm just wondering what the plans are for this year, in terms of investment, given, I guess there's some uncertainty around ability to drill wells et cetera. What are your current plans there?

David Knox - ***Santos Limited - CEO and Managing Director***

What we obviously plan to do is we're doing a full assessment of the assets on the ground and we're working on that aspect. As far as with the exploration drill bit or the appraisal drill bit it is, we're planning or seeking to drill about 50 wells over the next three years to appraise the asset and that's about $500 million of gross investment over the three year period. Now, obviously, we recognise this is vigorous debate going on around it, which we were participating on in that - but our plans going forward are to continue to appraise this asset and hopefully, in three years time, we will be able to demonstrate that we have a sufficient economic gas in order to start to go into limited production, which will, at first, I would imagine will be a domestic New South Wales supply. We currently oversee and supply a small power station right now, but that's very small level production.

Nik Burns - ***Credit Suisse - Analyst***

Okay, very good. Thanks, guys.

Operator

Your next question comes from the line of Stuart Baker from Morgan Stanley. Your line is now open. Please go ahead.

Stuart Baker - ***Morgan Stanley - Analyst***

Morning, gentlemen. Thanks very much for that. Most of the questions on domestic gas have been answered. Two things, Andrew. Just on slide 18, the capex expenditure bar chart there, showing the break down by region, it would be useful to get the figures, rather than just try to measure them off the graph, if that were possible, after the presentation. Just turning to questions and the reserves and the acreage position in the Amadeus Basin has been recently consolidated. There's a reasonable resource there and a large in place resource. We do observe a lot of industry interest in the Northern Territory, in other parts of the Northern Territory, I should say. I'm just wondering what your strategy is for taking your interest in the Northern Territory forward. Are you going to build that position by asset deals with others or are you going to sit on the Amadeus position, as you have, and think about putting a few wells into it in two, three or five years or whenever, so I'm just curious to know a little bit more about that one.

David Knox - ***Santos Limited - CEO and Managing Director***

Well, you know, I'm obviously not going to give the game away on what our plans are or aren’t, but I can say that certainly in the Amadeus assets, Mereenie field in particular, we've just completed the work-over campaign. We're planning to drill some more wells to rejuvenate that field. That's all taking place, so basically, I'm having a really good look at that field. We believe it's got real legs for the future, so we're with you and also appreciating that, you know, there are areas in the Northern Territory and in western Queensland, which are of interest to us. Our focus on the unconventional is largely, however, right now, focusing on the Cooper Basin, unlocking those resources, which where I'm focused on now, but we are actually, you rightly point out, doing quite a bit of work on Mereenie, in particular, to upgrade that.

Stuart Baker - ***Morgan Stanley - Analyst***

Thanks very much.

David Knox - ***Santos Limited - CEO and Managing Director***

Thank you, Stuart.

Operator

Your next question comes from the line of Daniel Butcher from JPMorgan. Your line is now open. Please go ahead.

Daniel Butcher - ***JPMorgan - Analyst***

Hi, guys. Thanks. A couple of my questions got asked already, but I was hoping I could drill down a little bit more on the ESG acquisition. Specifically, could you, sort of, indicate how many wells you intend to drill in 2012 and what sort of well designs you'll be testing and secondly, I suppose, whether you have any 2P or 3P targets upgrades in the next year or two that you're aiming for.

David Knox - ***Santos Limited - CEO and Managing Director***

Well, we aren't planning to publish exactly our number of wells in 2012, but what we're saying is we - we would - we're seeking to gain approval for 50 wells over the next three years and about $500 million of expenditure into the - in the Gunnedah Basin. We'll be using similar technology to the ones that Eastern Star have developed, which is largely stacked horizontals. That technology is - appears to be working quite well in the existing wells and we'll be developing that and honing that as we go forward.

We are right now doing some well work in the basin, currently. That will probably continue, but the whole thing here is to basically work with the local landowners and farmers, establish a good track record of performance of performance on our side following the Eastern Star transaction and make - just make sure we explain what we do and make sure that they understand that we can work with them successfully, with the agriculture, as we've obviously demonstrated in Queensland.

That will - those discussions are ongoing. We have - I think we have 40 agreements with landowners right now in New South Wales Basin, so we're - you know, we will continue to work on that and continue to drill when we gain the necessary approvals to do so. Overall, I'm looking for 50 wells over the next three years. That's my target and that's where we're heading. That's enough to evaluate the resource that we have, which we believe is very significant.

Daniel Butcher - ***JPMorgan - Analyst***

Do you have any idea when the approval would be forthcoming?

David Knox - ***Santos Limited - CEO and Managing Director***

Well, the approvals come through well by well. You seek - for each well, you seek an approval. We do have approvals for early wells in that program.

Daniel Butcher - ***JPMorgan - Analyst***

Sure --

David Knox - ***Santos Limited - CEO and Managing Director***

(Inaudible) currently in operation; those are operating right now.

Daniel Butcher - ***JPMorgan - Analyst***

Sure and just one quick on Zola. What's the timing of the appraisal well there?

David Knox - ***Santos Limited - CEO and Managing Director***

We shot seismic on Zola, which we're evaluating right now. We haven't got an agreed timetable for that, but obviously we'll work with our partner, Apache, on exactly when do it. I don't think it will be this year. I think it will be next year, probably.

Daniel Butcher - ***JPMorgan - Analyst***

Okay, thanks.

Operator

Your next question comes from the line of Gordon Ramsay from UBS. Your line is now open. Please go ahead.

Gordon Ramsay *- UBS - Analyst*

Thank you very much. Just in the Cooper unconventional, I just want to make sure I've got my head around the program properly. You're talking about four wells in the second half of 2012. Are those vertical wells and do you anticipate fracture stimulating those and then also, the Moomba North shale well, is that expected to start evaluation before the end of the year, as well?

David Knox *- Santos Limited - CEO and Managing Director*

Yes, so the four wells that are below the shale, will be vertical wells. Yes, like the majority of our wells in the Cooper, they will be fracture stimulated, Gordon, using the latest technology that we have and then, the horizontal well, which we're planning, hopefully we'll get that spudded by the end of the year.

Gordon Ramsay *- UBS - Analyst*

David, when you're saying below the shales at Patchawarra basically?

David Knox *- Santos Limited - CEO and Managing Director*

Yeah, there's a log, I think, yes. So it's the orange, the Patchawarra and we're be testing both the tight rock and also the shales - also the coals, the deep coals.

Gordon Ramsay *- UBS - Analyst*

Okay. Well, that's good. Just one other question, just on capitalised interests, Andrew, you capitalised $136 million this year, you're capex is going up by $681 million in 2012, can you give us any guidance in terms of what level we might be looking at in 2012?

Andrew Seaton *- Santos Limited - CFO*

Gordon, we'll be capitalising all the interests associated with GLNG, PNG and Fletcher Finucane projects, so I don't have an actual number for you, but we'll continue the trend of capitalising interest to each of those projects.

Gordon Ramsay *- UBS - Analyst*

Okay.

David Knox *- Santos Limited - CEO and Managing Director*

Just going back to - Daniel asked me a question. Zola in fact has been confirmed will be actually done this year, not next year, so we've now completed the seismic interpretation and so it will be done this year, so it's part of the big plan in WA this year.

Operator

Your next question comes from the line of Adrian Wood from Macquarie. Your line is now open. Please go ahead.

Adrian Wood *- Macquarie - Analyst*

Yeah, hi. Look, just a couple of questions. First of all, you're obviously targeting 175 wells for the upstream ramp up at Gladstone LNG. Last year, you were obviously impacted by the floods and we see a lot of flooding again, at the moment. How many, realistically, do we think we're going to get this year? Is that 175 still a realistic target and what does that do for the overall program, if we do lose a few wells this year?

David Knox *- Santos Limited - CEO and Managing Director*

Well, as we stand right now, we are still targeting 175. We have had a period of a couple of weeks shut down, due to the recent wet weather. We have seven drilling rigs, three completion rigs. They're all back operating now. So you know, all things being equal, which often they aren't in our business, then we will achieve that 175 target and that will deliver the reserves build, I think we said to the markets, of 500 petajoules or circa 500 petajoules for the year.

Adrian Wood *- Macquarie - Analyst*

Okay, great. Thanks. Also, just to pick up a comment you mentioned earlier about potentially selling more gas through the GLNG project. Is that just taking you from the 7 to the 7.8 name plate capacity or are you talking about new capacity there?

David Knox *- Santos Limited - CEO and Managing Director*

Well, right now we're - you know, our name plate capacity is where we'll be until we make a decision to further debottleneck that, but right now, it's at 7.8, so what we're talking about is just meeting the 7.8 name plate capacity and keeping it full for the 20 years.

Adrian Wood *- Macquarie - Analyst*

Then just one on the - sorry.

David Knox *- Santos Limited - CEO and Managing Director*

As you know Adrian, LNG trains do have a habit of gaining 5% to 10% debottlenecking once they're up and running.

Adrian Wood *- Macquarie - Analyst*

Sure, sure. Also, BG talked about last week the potential for some deeper gas from the - to potentially feed an expansion of the QCLNG projects from some deep gas sands and talked a risked 2.3 TCF. It doesn't look to be that far away from some of your acreage. I wonder if you have any similar potential maps on your blocks?

David Knox *- Santos Limited - CEO and Managing Director*

Well obviously, we've been working in the conventional gas area for the last 30 or 40 years in our area, so we know it very well. We know there's some deeper coals, which we're having a look at and of course, I've already mentioned there's deeper coals in the Cooper Basin, so we know that there is some potential in some deeper coals, but we know our conventional acreage extremely well, having been operating it for an extremely long time. So we do know the performance of that.

Adrian Wood *- Macquarie - Analyst*

Sure and then, just one final question. Perhaps directed to Andrew. Andrew mentioned, again, the, sort of, the Santos view that East Coast gas prices are ultimately going to move to an oil linkage. Given that there's obviously going to be finite export capacity in both the domestic and the export as served on long term contractual basis, how does Santos see the ability to arbitrise those two markets and bring the prices into line?

Andrew Seaton *- Santos Limited - CFO*

It's a good question. You really just need to understand the supply and balance in eastern Australia, where come 2015, you're going to have capacity starting up, which is several times the gas capacity of the existing domestic market. You know, our view is that we'll continue to see a robust domestic market, particularly as the carbon price comes on and drives more switching from coal into gas fired power. But the market has been characterised by a long-term CPI linked contracts. We've seen that over the last decade becoming shorter-term contracts. We certainly haven't been out there writing long term contracts for quite a few years, because of our belief that gas prices will go higher, so what's playing out now, I think, is really just validation of that view that we've held for many years and that is that the domestic contracts will move towards export parity pricing, over time.

Adrian Wood - ***Macquarie - Analyst***

But even given the export constraint, I mean, in coal, where the export constraint, perhaps, isn't going to be as large as it is in the gas market, we've seen a differential in domestic and export prices, but we don't expect that to play out in the gas market in the same way. Where the export constraint is arguably bigger.

Andrew Seaton - ***Santos Limited - CFO***

Again, it comes to supply and demand and, you know, what we've seen, if you use a Western Australian analogy, we saw gas prices move quite rapidly towards the export parity. Even through export parity in some cases, but they've eased off a bit now, as new sources of supply have come on. I think the East Coast market will be the same. It'll depend on the infrastructure build out and how quickly reserves are developed into the two different markets. I think there is plenty of resource for the two different markets. It's a question of price and as the price goes up, the key enabler towards the 8000 petajoules of 2C that David referred to earlier, in our portfolio, a key enabler there is a higher gas price, so higher prices will bring with them higher reserves and higher deliverability, higher investment.

Adrian Wood - ***Macquarie - Analyst***

So okay, just to be absolutely clear, then, you see the gas price on the east coast sitting higher than the marginal cost at an oil indexation net back?

Andrew Seaton - ***Santos Limited - CFO***

No. I think the - if you get into a debate about short run marginal costs versus long run marginal cost, I see the east coast gas price getting closer to a long run marginal cost, so covering the capital cost and operating costs of the investment and giving them an acceptable return on that investment. I think it will be a discount to world parity prices, taking into account the transportation and liquefaction costs.

Adrian Wood - ***Macquarie - Analyst***

Sure, okay. Thanks very much.

David Knox - ***Santos Limited - CEO and Managing Director***

Adrian, also, it's about - for us, it's about unlocking our, you know, 11,000 petajoules or 11 TCF of resources and we've got dual opportunities. We either go domestic or we go through our LNG system, which now is a brown field system, so we have choice and with that, you know, long term, that's going to be very healthy for the east Australian gas market as well, because it will allow us to make these large investments, it allows us to unlock the Cooper Basin. It allows us to continue to supply eastern Australia with very considerable volumes of gas, so it's a massive benefit for both export opportunity, but also the domestic opportunity.

Adrian Wood - ***Macquarie - Analyst***

Great, thank you.

David Knox - ***Santos Limited - CEO and Managing Director***

We're involved in quite a game changing period, I believe, here in eastern Australia.

Adrian Wood - ***Macquarie - Analyst***

Sure. Thanks very much.

Andrew Seaton *- Santos Limited - CFO*

Before we - just before we take the next question, just to come back on Gordon's question on capitalised interest, it - our outlook for capitalised interest next year, if we capitalise about $136 million this year, we're looking at about $100 million more than that next year, so up in that range of about $230 million.

Operator

There are no further questions at this time, Mr Knox. Please continue.

David Knox *- Santos Limited - CEO and Managing Director*

Well, thank you very much to everyone for joining us today. I think you'll agree, we have a very exciting 2012 in front of us. Both in delivery of our projects, but also with our drill bit. I say, I look forward to meeting everyone over the coming weeks and thank you very much for joining us this morning.

Operator

This does conclude our conference today. Thank you for your participation.