Event Transcript

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Start of Transcript

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Santos 2013 full year results conference call. At this time, all participants are in a listen only mode. There will be a presentation followed by a question and answer session at which time, if you wish to ask a question, you will need to press star one on your telephone. I must advise you that this conference is being recorded today, 21 February 2014. I would now like to hand the conference over to your first speaker for today, Mr David Knox. Thank you. Please go ahead.

David Knox: Thank you very much, Georgia. Good morning, everyone. Welcome to Santos's 2013 full year results conference call. Joining me on the line today is my CFO, Andrew Seaton. In presenting the results to you, we will focus on the four important highlights that define our achievement and the Company's positive outlook from here.

First, I want to underline the excellent position of our two major LNG projects. They will be completed and start delivering significant increased revenues for Santos -- PNG LNG this year and GLNG next year. Also on plan for start-up are Peluang in Q2 and Dua in mid 2014.

Secondly, I also want to confirm that as our major projects come online, we are signalling increasing dividends. Santos and its shareholders are poised to reap the rewards of several years of significant capital investments. Our operating cashflow is expected to double over the next two years.

Thirdly, Andrew will talk to the positive contribution from strong gas and oil prices which has lifted revenue to a record level for Santos.

Finally, we will also confirm that with peak CapEx now behind us, strengthening cashflow and the balance sheet in excellent shape, Santos is well placed to balance its return to a progressive dividend policy with funding for future growth and debt reduction.

Now in addressing our performance in more detail, we'll refer to a presentation which we released this morning. It's available on our website.

On the cover of the deck, you can see the latest picture of the GLNG site on Curtis Island. As we confirmed during a visit to the site with the premier of Queensland on Tuesday this week, GLNG is now 75% complete. It is on track and on budget for first LNG next year. PNG LNG is, of course, now well down the home straight. This project is more than 95% complete with first LNG delivery now expected in the third quarter of this year. Both of these projects are transformational to Santos' earnings profile. I'm pleased to say that both are in excellent shape.

So let's look at the 2013 performance in a little more detail. I'm now turning to slide 3. At the end of the day, both the operational and the financial performance of this Company are dependent on our attitude towards and the execution of safe operations in every sense of the word. We made progress in 2013 on improving our lost time injury rate to a seven year low. This was achieved at the same time that we reached peak employee and contractor numbers across the GLNG project. While this improvement is encouraging, we must continue to raise the bar and recommit to our goal that everyone who works for us goes home from work without injury or illness. At the same time, we have in place a rigorous set of systems and procedures to ensure safe and responsible operations in terms of environmental impact. The Santos leadership team is fully committed to continual improvement of the safety of our people and our operations.

I now want to turn to slide 4 which summaries our progress towards the shorter and longer term strategic objectives during the year. Santos is now visibly on the doorstep of the transformation that's been in the making for the past five years. Our strategy is to open up the Company's resources to Asian markets to gain exposure to higher demand and so higher prices in order to unlock our substantial East Coast resources in particular. This strategy is now becoming a reality. Prices are increasing. Investment in oil and gas projects is rising. There is increasing discussion in Australia about the potential for onshore shale resources.

Towards that end, there are, of course, many achievements during 2013, but I'll highlight just some on this slide. Fletcher Finucane delivered first oil under budget and slightly ahead of plan. Our team in the west did an excellent job on what was quite a complex subsea development. We've seen good exploration success, in particular Crown which is potentially Santos's largest ever discovery. Also, something I think is going to be very interesting going forward is the development of the Zola complex. Here we had further success with the Bianchi well during the year. We also expect the commencement in Lasseter in the Browse Basin in the next couple of months.

To return to the LNG projects, while the really pleasing news today is that we now expect first LNG cargo from PNG in the third quarter of this year, don't forget that we're going to be in PNG for the next 30 years. So we've already been looking for opportunities to increase our footprint. To that end, we've executed five permit entries in PNG since September last year.

Finally, on GLNG, I wish you could all have been with me with the premier of Queensland this week on Curtis Island. GLNG is clearly powering ahead now. If anything, the 75% completion mark probably understates the position of the project to date, so I'm going to update you on the progress on the next slide. All partners and the project team members can be proud of the progress which we've made during 2013.

We drilled more wells than we planned to do. The results from those wells have also been ahead of plan. Our Fairview wells have continued to perform very strongly. They again lifted their performance since our last update to you in December to 1.8 terajoules per day per well. Roma wells are performing in line with our expectations. Our confidence is increasing every day that the target of a consistent 0.5 terajoules per day per well will be met and potentially exceeded.

I was delighted in 2013 to be able to announce some very significant deals - with QGC to connect our pipes, with APLNG to collaborate on gas swaps and on joint venture simplification projects. These deals are important, not just because of their value today, but because of what they say about the future and how we're all going to work together.

While our production performance was below plan last year, overall on the big projects which underpin our transformational strategy, we had a very successful year. Santos as an Asian LNG business was an aspiration five years ago. Today it is on the verge of becoming a reality. I'm pleased with the Company's operational and strategic performance for 2013. I'm positive about the future that we've now set up for the Company in the longer term. With that brief overview, I'm going to ask Andrew to take you through the financials in some more detail. Andrew.

Andrew Seaton: Thanks, David, and good morning to all. I'll jump straight into the summary financials on slide 7. Sales revenue was up 12% to a record $3.6 billion. This was mainly as a result of higher third party oil sales as we leverage our Cooper infrastructure position. A 7% increase in EBITDAX to just under $2 billion was pleasing as operating margins reflected rising gas prices and continued strength in oil prices. Net profit after tax of $516 million was in line with 2012. Operating cashflow was broadly in line with 2012 although held back somewhat by higher tax payments during the year. We've declared a final dividend for 2013 of $0.15 a share fully franked. This brings the full year payout to $0.30 a share. The dividend reinvestment plan will continue with the 2.5% discount and will not be underwritten.

So looking at 2013, we clearly would have liked to have seen higher production. Nevertheless, I do believe that this is a credible result. We're now selling products at higher prices and realising higher margins. This is at a time when we're about to start up two major revenue projects.

Turning to production on slide 8, the 2013 result reflected new oil production from Fletcher Finucane and also higher LNG production from Darwin. This was offset by natural fuel decline in several assets and the cessation of gas production in Bangladesh. Our guidance for 2014 is 52 million to 57 million barrels of oil equivalent. This growth is driven by the start-up of PNG LNG in the third quarter and also from the Dua and Peluang projects.

Moving to production costs on slide 9, these were held flat at $690 million for the year. Given all the dynamic, economic and operational circumstances, this is a good performance. In fact, production costs in the first half were lower, but the second half was impacted by one-off items such as the cost of repairing the Chim Sáo gas export pipeline and also repairs to that FPSO. As we grow our production strongly in the next few years, managing costs will remain a really high priority for Santos. Specifically, we're committed to driving economies of scale in our high fixed cost operated businesses like the Cooper. To that end, we made some real progress in 2013. We reduced Cooper gas costs by 6% per barrel and we'll look to reduce these unit costs further in 2014. Our 2014 guidance of $820 million to $880 million reflects the start-up of high margin production from PNG LNG Dua and Peluang. It also includes the planned statutory shutdown at Bayu-Undan and workovers of a number of offshore WA oil wells.

On slide 10, DD&A for 2013 was $17.36 a barrel, up some 17% from 2012. This was primarily due to first oil production from Fletcher Finucane, also higher estimates of future oil development and abandonment costs for offshore WA and Northern Territory assets, and lower reserves for Bayu-Undan and Barrow Island. As PNG LNG Dua and Peluang come online in 2014, we expect DD&A to again increase to approximately

$18.50 a barrel. High DD&A is being driven by higher development costs. This is an issue for the industry as a whole. On the flipside, though, our clear strategy for the last few years has been to increase our exposure to higher price markets and therefore to grow our margins. So whilst costs must remain a clear focus for us, the fact that we will be selling more LNG and more domestic gas at higher prices will actually see our margins grow.

On the next slide, you can see that 2013 was our peak year of CapEx at $4.1 billion, approximately $1.9 billion of expenditure related to the GLNG project which I'll speak to on the next slide. Our 2014 guidance of $3.5 billion is unchanged. We're forecasting capitalised interests of approximately $250 million.

The table on slide 12 provides an additional level of granularity around our reported GLNG CapEx costs. So starting with the US$18.5 billion project budget, using actual exchange rates to date and an $0.87 exchange rate moving forward, this equates to AU$20.7 billion. Actual expenditure to date in Australian dollar terms against this budget is $13.7 billion of which Santos's share is $4.1 billion. Hence there's a gross amount of $7 billion of the budget remaining to be spent over the next two years. In addition to this project spend, the JV has continued to fund capital expenditure associated with the existing facilities in support of DomGas sales and also exploration and evaluation expenditure. Also included in the GLNG segment analysis, when you look at Santos's accounts, is capitalised interest. So if you include these costs, the total Santos share GLNG segment CapEx since FID totals AU$4.8 billion. In 2014, our $1.4 billion guidance for GLNG CapEx includes both the LNG and the non-LNG project amounts. Importantly, as David said earlier, the forecast GLNG CapEx of US$18.5 billion for the period to the end of 2015 is unchanged. This brings me to funding.

As slide 13 shows, our funding and liquidity position remain robust with total liquidity of $3.4 billion. We have $600 million in cash plus $2.8 billion in committed but undrawn debt facilities. We have minimal debt maturing in the next two years.

Moving now to reserves on slide 14, we didn't replace our reserves in 2013 as increases in Queensland CSG, Indonesian gas and Mereenie were offset by reduced reserves as Bayu-Undan, in Cooper gas and at Barrow Island. However, reserves replacement's an inherently lumpy metric as evidenced by our five year organic 2P reserves replacement ratio which stands at almost 240%. Overall in 2013, our 2P reserves were down by less than 3% at 1.4 billion barrels of oil equivalent. Nevertheless, our 2P reserves life remains a very healthy 27 years. More detail can be found in our reserves report that was released to the market today.

Moving to slide 15, rising demand for gas in Eastern Australia is a key thematic for us. With over 11,000 petajoules of 2P reserves and 2C resources, we are well placed to benefit from the expected tripling in gas demand over the next few years. With our market position, our acreage and our infrastructure, we have a lot of running room in Eastern Australia whether it's unconventional gas in the Cooper or coal seam gas in New South Wales. At present, New South Wales has to import 95% of its gas requirements. The Narrabri project represents an important resource which hasn't had all that much attention from the market to date. David's going to talk about that more later in the presentation.

It's a strong captured reserve and resource base across the Group. It gives us confidence in our production outlook as outlined on slide 16. Now this is the production profile that we showed at the investor day in December. What we're looking at here is quite a step change in production in both the short and the medium to longer term. By 2016, production will have grown by about 40%. By 2020, we expect to be producing about 80 million to 90 million barrels of oil equivalent which is some 60% to 80% higher than now. This is across Australia and Asia, conventional and unconventional resources. This diversity is a key differentiator for Santos from our peers. It's what creates the future opportunities for us.

Finally, I want to close by speaking to our strong business outlook. As David pointed out, over the last 12 months, we've delivered some key strategic milestones and we're truly on our way to transforming our business through our LNG portfolio. Our production outlook is strong. We expect to see 40% growth above current levels by 2016. Increasing exposure to [oil] pricing together with rising domestic gas prices will deliver margin growth. We expect operating cashflow to more than double by 2016. We remain well funded to execute our strategy. It's all of these factors which underscore confidence in the Company's outlook. As David has made clear already, we intend to increase returns to shareholders but also to balance this with funding future profitable production growth. It's our intention to increase the dividend once PNG LNG commences production. We will adopt a progressive dividend policy. By this we mean that, as our production and earnings grow, we'll initially increase the dividend to a level which is sustainable and we will then steadily increase or maintain the dividend each year. With that, I'll hand you back to David.

David Knox: Thank you, Andrew. Now in case you missed it earlier, joined the call late or have been having a snooze, I'm increasingly excited about the dawning reality of PNG LNG and the GLNG project. The evidence is tangible. On slide 18, you can see the inside of tank B on Curtis Island. At the time of the half year results last August, the roof had only just been raised. Today the team is well advanced with the installation of the inner nickel steel lining which you can see in the photograph. I'll go into more detail on the LNG project over the next few slides starting with PNG LNG on slide 19.

PNG LNG will generate substantial cashflow substantials following commencement of production during the third quarter of this year. Four of the development wells are complete and the four remaining wells are progressing. The onshore and offshore pipelines are complete. Commissioning is ramping up in both the upstream gas conditioning plant and the LNG plant. We have gas in train 1 and the refrigeration compressors are being test run. Supporting infrastructure, including the jetty and LNG tanks, is complete. All is looking good for first LNG delivery in the third quarter of this year.

Let me turn to future expansion of PNG LNG on slide 20. While we're confident expansion will happen, it is just a little early to predict how and when. The important point is that as an existing infrastructure owner and the holder of prospective acreage, Santos is well placed to benefit from the expansion of the project. Whatever the source of that expansion gas, Santos has a seat at the table to benefit from multiple options as listed on the slide. All in all, PNG continues to deliver great progress and opportunity under Exxon's leadership.

Let me now turn our attention to GLNG on slide 21. Like the PNG project, GLNG is on schedule and budget. It will deliver its first cargo in 2015. We're really pleased with progress of GLNG from the drilling to the pipeline and at Curtis Island. I'll step you through that progress over the next few slides.

I'll start with drilling on slide 22. In total, 237 wells were drilled in the GLNG acreage. Almost 90% of these were development wells. This exceeded our drilling target for 2013. Our average cost for a drill in a completed development well was $1.35 million. That's a 33% reduction in the average cost per well since FID, so we're drilling faster, more efficiently and cheaper. Our guidance on future well count is also unchanged. This drilling program is in line with our market guidance for the LNG ramp-up which is also unchanged. Train 1 will take three to six months and train 2 will take between two to three years to fully ramp-up.

Now slide 23 is a very important slide. It demonstrates that the rocks at both Fairview and Roma are also performing well. Fairview production capacity continues to build ahead of expectations and plan. The wells are now averaging 1.8 terajoules per day. It's up from 1.6 at our last update to you just in December. This performance underlines the confidence that we have in this field and supports our ramp-up and production profile. In Roma, we've built a strong base of dynamic data. We've got wells flowing that give us confidence that the future production capacity of the field will comfortably achieve our targets on a planning basis. There is real potential for upside.

Upstream construction is also now well advanced as you can see on slide 24. Some 2700 staff are working on upstream construction across the CSG fields. This is a picture of Fairview Hub 4. This hub will have the capacity to process 250 terajoules a day of gas. A key focus for the construction teams at all the hubs is on the water handling facilities. The picture shows the water desalination plant at Hub 4 which is completed and handed over for commissioning in December. This was only three months after the associated water pond was commissioned. That's a great achievement. You can just see the pond wall at the bottom of this picture. I'm pleased to say that water handling facilities at the other hubs in Fairview and Roma have also been commissioned. These facilities enabled us to commence the all-important dewatering of the CSG fields on schedule last year.

Now turning to slide 25, construction of the GLNG pipeline is now approaching completion. The picture shows the break-through of the tunnelling machine on Curtis Island as it occurred earlier this month. Work is now focused on cleaning and smoothing the tunnel before the pipeline is pushed through. The team of tunnellers responsible for this success is seen here proudly standing in front of their machine. Constructing a project of the scale of GLNG takes hard work, incredible skills and discipline. This team exemplifies those attributes. They spent back to back 12 hour shifts underground, guiding and maintaining the machine as it shoot its way through more than four kilometres of rock and earth up to 60 metres below the surface and for 10 months. More broadly, we could not deliver this project without the dedication, skills of key staff and contractors like these guys you see in the photograph.

On the mainland and at Curtis Island, all the mainline welding is complete for the entire length of the pipeline. I'm pleased to announce today the pipeline is now fully in the ground. 25% of the pipeline is hydrotested and 75% of the route has been reinstated. This is all outstanding progress. It means that we're on track to complete the pipeline in the second quarter of this year in time to deliver the first commissioning gas to Bechtel.

Turning to Curtis Island and the LNG plant, at the end of December, including the work being done at Bechtel's [unclear] in Batangas, train 1 was 76% complete and train 2 was 62% complete, both on a value of work done basis. You can see the excellent progress being made onsite on the slide with train 1 in the foreground and train 2 in the background. Three weeks ago, I visited Batangas in the Philippines. At that time, 76 train 1 modules were complete and shipped to Curtis Island. The remaining six train 1 modules will arrive on Curtis Island in March. All 29 train 2 modules are under construction with the first also expected onsite next month. The work I inspected in the Batangas yard was of high quality. You should note that all modules are being shipped with all pipe and valves in place and the lagging installed.

Slide 27 gives you an overview of the whole Curtis Island site. I'm particularly pleased with the progress on the tanks and the jetty which you can see on the foreground. All of the jetty modules are in as are all of the loading arms. The jetty and the LNG tanks are critical part items for an LNG plant. Again, I am pleased to say that on schedule progress is being achieved with tank construction being undertaken by Bechtel. Bechtel is also responsible for plant commissioning with Santos operational staff embedded in their team to ensure seamless commissioning. This is a critical phase which will commence once gas is introduced into the plant later this year.

Our projects in Asia are also on schedule and budget. In Indonesia, Peluang is at 94% complete and we expect first production in the coming months. Now the remarkable thing about this is the project was only approved in January last year. That's just 13 months ago. Also in Indonesia, we completed our acquisition in November of a 50% operated interest in the AAL oil field. Our team in Jakarta is working with our partner, AWE, and the Indonesian government on the FPSO tender strategy and the field development plan for this project. In Vietnam, drilling has commenced on the Dua development and we're on track for first oil around the middle of this year. Dua will be tied back to the Chim Sáo FPSO which has now fully recovered from the pipeline dragging incident of last year. The current production is steady at around 25,000 barrels per day.

Now let us take a look at Santos's exploration program starting with our Cooper Basin unconventional program on slide 29. Australia's first commercial shale gas well, Moomba-191, continues to flow at 1.8 million cubic feet per day. That's nearly 18 months after it was connected to our Moomba plant.

As you know, following the success of 191, we had another positive result at Moomba-194. That well flowed at a peak gas rate of three million cubic feet per day from shale, tight sand and deep coal targets. The evaluation has shown that the well is producing equal flows from the deep coal, the shale and the tight sand. This is a very encouraging result, particularly deep coal which at these depths is described as meta-anthracite. The success with 194 continues to provide new information which is opening our eyes to the further resource opportunities in the Cooper. Also important to emphasise that, like 191, Moomba-194 is only 2 kilometres from the tie-in point and only 14 kilometres from the Moomba plant. We expect to connect 194 to the gathering system during the second quarter of this year. Such convenient infrastructure access is obviously key to the commercial development of the resource. As a result, Santos remains well positioned as the operator of the basin.

The drilling of our first horizontal well in the REM shale, Roswell-2 is now complete. We have a 550 metre horizontal lateral length within the lower [unclear] shale. Today three stages of the five stage fracture stimulation are complete. All five stages of the stimulation will be complete by this weekend. On Moomba-193, we've also just completed a 1000 metre horizontal section. This will be fracked and tested by mid year.

In summary, our team's focus is on cracking the code on the REM shale section. This code cracking involves characterising the reservoir quality and then matching each reservoir with the most compatible completion type. This is exciting work and it's going to continue throughout this year.

Now going to turn to the Basin Centred Gas play. The Gaschnitz-1 well discovered gas outside structural closure throughout the entire 1000 metre Permian section. The Gaschnitz discovery was followed by the drilling of Van der Waals-1 which has also flowed to surface. Clearly the unconventional play has the potential to be commercial. Our aim is to now apply the right technology here to unlock this extraordinary resource.

Turning to the New South Wales on slide 30, the gas reserves contained in our Narrabri project are critical to New South Wales's energy security. The project has the potential to supply up to 50% of the state's gas needs in the long-term. Yesterday I'm pleased to say that Santos signed a Memorandum of Understanding with the New South Wales government that recognises this potential. The MoU defines our proposed development as one which has strategic importance for the energy security of the state. This includes an agreement on a set of timelines for the assessment of our formal project application. This public support from the New South Wales government gives me increased confidence in our ability to make progress in New South Wales. We have a strong support base in Narrabri. That local support has meant that we've been able to get our exploration drilling program underway. We expect to complete and submit the environmental impact statement for this project by middle of this year.

So that wraps up our overview of the Company achievements through 2013. We concluded the year with the two major LNG projects in excellent shape. Both are on schedule and on budget to begin producing gas. As our Chairman has said this morning, this means that Santos intends to return to a progressive dividend policy. This is what we said would happen at the time of committing to the GLNG project in 2010. We are now on the doorstep of increased rewards for shareholders from the investment in these transformational projects. Andrew pointed to the positive contribution from strong gas and oil prices which lifted revenue to a record for Santos in 2013. Finally, we've shown you that with an expecting doubling of cashflows over the next two years and with a balance sheet remaining in excellent shape, Santos is well placed to balance its return to a progressive dividend with future growth and debt reduction. We're very positive about the outlook for the Company as our strategy to transform the business is becoming a reality. Thank you.

With that, I'd now like to take your questions. I'll hand back to Georgia, our operator, to coordinate this. Can I have the first question, please?

Operator: Thank you. Ladies and gentlemen, as a reminder, it is star one to ask a question. Your first question comes from the line of Dale Koenders from Citigroup. Please go ahead.

Dale Koenders: (Citigroup, Analyst) Hi, David. I was hoping to ask a question about the Cooper reserves and resource downgrade associated with the greater [unclear] region. Can you please provide a little bit of colour as to why that's occurred?

David Knox: Yes, Dale. Obviously the first thing to say is, if you think of a five year window, our reserves replacement has been very good and very positive. It's actually extremely pleasing. The downgrade at [unclear] has come from the 16 well pads we drilled there. As I've spoken before about the - we drilled some of these wells really significantly down dip, particularly three of the wells which were drilled down dip didn't come in with our expected results. But at the end of the day, when you drill 16 wells, you expect some good results and you expect some that perhaps don't come in as you would hope. This is definitely a case of that occurring.

Dale Koenders: (Citigroup, Analyst) When you say the 16 well pads, do you mean the Cowralli pads?

David Knox: Yes, the Cowralli pads. The other aspect about this pad that's really exciting is we drilled these 16 wells with a much better drilling efficiency than we've probably ever seen, so that pad came in - and it's the first time we done a pad at that size. The drilling cost came in about 10% under budget. We also significantly increased our fracking efficiency. The production of the pad is going very well. But you are quite correct. When you drill 16 wells, you drill some down dip. You sometimes get results that are not as you wished. This is the case and we've adapted to them. But at the end of the day, we have a long-term strategy to unlock the resources at Cooper Basin. We're now moving to Big Lake. We're going to do four well pads in Big Lake and again - actually we're expecting some really strong results there. So we'll get some upsides, we'll get some downsides, but overall the whole of the Cooper Basin resources are now facing a good price deck, a really strong market. So we can get after unlocking them. That's always been our strategy.

Dale Koenders: (Citigroup, Analyst) In 2011 as a side-trip, Santos discussed the target of adding 1000 petajoules net to the Cooper Basin reserves by the end of 2015. I understand in 2012 was stated the target of adding an additional 1000 petajoules by the end of 2015 versus what had already been booked. Are you still on target to add those volumes by that date?

David Knox: I don't think we'll make those levels of reserves adds probably by 2015 from right now, but it's early days. We're increasing the number of drilling rigs. We're going, as we say, on to Big Lake. We are facing a much stronger market than perhaps we've ever envisaged for Cooper gas. You've seen some and I've talked about some fairly extraordinary results in our unconventional drilling program. We haven't booked anything there. So let's just see how this plays out going forward. At the end of the day, I am extremely confident that the Cooper Basin is going to provide really good underpinning for Santos and its shareholders for the next 40 years. We are making extraordinary strides in the technology we're applying. So I am very hopeful that we'll surprise ourselves on the upside.

Dale Koenders: (Citigroup, Analyst) Given the downside to the reservoir performance in the region, is a downside risk to reserves booked in other areas or potentially so the remaining 70% of the acreage that's looking to be drilled out longer term?

David Knox: No, quite the reverse. The drop in the Cooper reserves is associated entirely with [unclear] and those three down dip wells, so it's very limited. As I said, when you drill a 16 well pad, you can expect some variable results. The three wells down dip didn't come in.

Dale Koenders: (Citigroup, Analyst) In terms of meeting peak contractual obligations in 2015 which part of was associated with this 16 well pad, is there is a risk there or are you comfortable about making...

David Knox: No, absolutely not, absolutely not. No, we're just bringing in a couple of new rigs and we're moving on to Big Lake now, so absolutely not. No, quite the reverse in fact.

Dale Koenders: (Citigroup, Analyst) Okay, very good. Just one other quick question. GLNG resource downgrade. There was a resource downgrade last year [unclear] guidelines. It seems to be the same reasoning this time around as well?

David Knox: We haven't had a - our 2P reserves have gone up and GLNG...

Dale Koenders: (Citigroup, Analyst) [Unclear].

David Knox: Yes, well, 2C, again your results go up and down a bit, so we obviously apply the guidelines rigorously and the numbers come out as they do. But I think the key thing to say on GLNG, we've got 8000 petajoules of dedicated reserves and resources to the GLNG project right now. We've got 5600 obviously in the project itself, we've got the 2C resources and obviously we've got third party gas. You sum that little lot up. You get 8000 petajoules. When you then say to yourself we're also connected to the east coast market, we've got another 11,000 petajoules of reserves and resources in the east coast market. Nobody on this call, nobody on this call - I'll repeat it again - should be in any doubt that we have enough gas and enough molecules to fill these trains, as I've said, in accordance with our ramp-up schedule.

Dale Koenders: (Citigroup, Analyst) Okay, very good. Thanks, David.

David Knox: Thank you very much, Dale.

Operator: Your next question comes from the line of Ben Wilson from J.P. Morgan. Please go ahead.

Ben Wilson: (J.P. Morgan, Analyst) Good day, David and Andrew. I take your point you just mentioned before, David, on GLNG project resources, but I just wonder if you can help us reconcile us the improved flow rates that you're getting out of your Fairview wells and presumably on target or on trend flow rates out of Roma, why we're not seeing that transpose into an increase in 2P reserves recovery yet? Should we expect that at some stage?

David Knox: It's a good question, Ben. The first point is absolutely right. When we spoke to you in early December - I think it was 4 December - we said the Fairview wells were flowing at 1.6. Today those wells, those same wells - there's a few more that we've added - are flowing at 1.8. There's reason to believe that they'll possibly go beyond 1.8. These wells are totally extraordinary. Now one of the things we're doing - obviously we've talked about my notes - is that we've connected up our water systems, so we are now starting to really get after the dewatering of the Fairview fields. We're dewatering at 40,000 to 50,000 barrels a day. We're doing exactly the same in Roma, not at the same levels right now. We're doing about 15,000 to 20,000 barrels a day in Roma, but that's going to build up. So what we're seeing is we are seeing - and certainly in Fairview's case, certainly in the [super seam] we're seeing an extraordinary, truly extraordinary set of wells. Now how those play out of resources we will find out over time, but clearly if they keep performing at these levels and stay on plateau for longer than we perhaps have modelled, then we have more resources and reserves. But that is something for the longer term future.

The same applies in Roma where we're now starting to see the 0.5 that we always said we would. There's significant encouragement there. But yes, over time, if these fields continue to perform, we'll be able to do it, but it will take time. I think the important thing for us is all around really basically capital efficiency. If I can fill all my compressor stations with fewer wells, are more productive, then obviously I have a much more capital efficient situation facing me. That's good news for us all. As I've been saying to the market for a very long time, my focus is on getting these trains full and deliverability at the front end. This is extremely helpful. Probably if you look at this deck, that slide is the most important slide in this deck.

Ben Wilson: (J.P. Morgan, Analyst) Okay, just maybe a question on your capital management plans that you've outlined. Progressive dividend policies, interesting and encouraging. I just wonder though, does that rule out other forms of capital management? I'm thinking buybacks and the like.

David Knox: No, I don't think it rules out or anything in other than the fact that the Board is committed to moving back to lifting the dividend and then holding that dividend for the future and lifting that dividend as and when appropriate. That's how we've described the progressive dividend. The Board is fully committed to doing that. They're committed to doing it and considering it as we run up to the PNG start-up and as we run up through the GLNG start-up.

Ben Wilson: (J.P. Morgan, Analyst) Okay, and [unclear].

David Knox: It doesn't rule out other options, but that's what the Board's commitment is right now.

Ben Wilson: (J.P. Morgan, Analyst) Sure thing. Thanks, guys.

David Knox: Thanks, Ben.

Operator: You have a question from the line of Adrian Wood from Macquarie. Please go ahead.

Adrian Wood: (Macquarie Group, Analyst) Yes, David, I've got a couple of questions on GLNG. First of all, just looking at slide 12, I just want to get some greater understanding around this non-LNG CapEx fee. Particularly I'm looking at the domestic and the exploration CapEx there. That's about $410 million from FID till today. That's obviously your 30% stake. So that points to about $1.3 billion of CapEx sitting within GLNG that is not within that $18.5 billion gross target if I understand correctly. First of all, can you confirm that that is the correct reading and whether those CapEx numbers were in any time included in that $18.5 billion number and what you would expect that domestic and exploration spend to be between now and the end of 2015?

David Knox: Yes, thank you very much for the question. I'm going to pass over to Andrew to answer that.

Andrew Seaton: Yes, Adrian, I can confirm that your maths and logic is right. I can also unequivocally confirm that those numbers were never included in the US$18.5 billion budget. They were always separate. What we have in GLNG is something we call an annual work program and budget which is normal for upstream joint ventures like this. These amounts are included in an annual work program budget that's approved each year by the joint venture.

David Knox: That annual work program budget basically, Adrian, covers the kit that was existing that produces our 100 to 120 terajoules a day of gas that we're producing and selling into the Australian market for a number of years. It's also, of course, always been included in our capital plans.

Andrew Seaton: It's exploration and appraisal up the Arcadia Valley primarily as well.

Adrian Wood: (Macquarie Group, Analyst) Yes. So just two things then as follow-up, that greater spend will probably continue for the next couple of years. Can we confirm that the $270 million in exploration, that has also been picked up in your exploration guidance budget over the last two or three years?

Andrew Seaton: Yes, we can.

Adrian Wood: (Macquarie Group, Analyst) Yes, at the corporate level? Yes.

Okay, and then just two follow-up questions on GLNG if we may. You're not narrowing down the start-up window. We're still talking about some point in 2015 and yet you're 75% complete. APLNG obviously is only 60% complete and yet they're talking about a mid year start-up. Can you square that circle? How, given that they're further behind you, can they be so sure on the start-up and you're not narrowing the window down? Also, I just wondered if there's any chance we can get a split of the current resources - the 6800-odd petajoules that you've got - can we get that split between Fairview, Roma and Scotia or would that be possible?

David Knox: Yes, I can say a little bit about - no, we're not narrowing down the window. Our start-up will be in 2015 and I can absolutely confirm that. Obviously we will narrow it at an appropriate moment but absolutely, Adrian, are not doing it right now. But you can clearly see - and I think everyone can see from the tone of this conversation that we've made extremely good progress in 2013. One of the really big issues around the project has been almost completely de-risked. That's the tunnel and the pipeline to - allows us to deliver gas to Bechtel when they need it in order for them to commission the plant and bring them on. But no, we will narrow the window down at the appropriate moment which is not today.

Adrian Wood: (Macquarie Group, Analyst) The split of resources between the fields?

David Knox: The split of resources is about - at the end of the day, we have two geologies here. We have Surat geology and we have Bowen geology. Obviously the Bowen geology is for the Fairview fields and the Surat geology is where the Roma fields are. I asked the same question of my staff just recently. It's about 50/50 you should consider between those two geologies.

Adrian Wood: (Macquarie Group, Analyst) Right, so Roma and Scotia combined is 50%?

David Knox: On a resources basis - resources, reserves basis, the whole enchilada, we expect it to be about 50/50.

Adrian Wood: (Macquarie Group, Analyst) Great, thank you very much indeed.

David Knox: Thank you, Adrian.

Operator: You have a question from the line of Mark [Santer] from Credit Suisse. Please go ahead.

[Mark Santer]: (Credit Suisse, Analyst) Yeah, morning, guys. Just first of all, following up on Adrian's question. I'm not sure if we got absolute clarity on the guidance on 2014 and 2015. Just to double check as well following on Adrian's question about that the exploration CapEx that you split out in figure 12, you said that is included in the Group exploration, but is that not double accounting given that you always guided to the $2 billion of CapEx for GLNG and therefore it's not being double counted if it was already in there?

Andrew Seaton: Yes, Mark, the $270 million there is exploration and evaluation, so what we have in our exploration budget is straight exploration. Evaluation then comes into our other CapEx components within the assets. So yeah, a proportion of that was in the exploration, but if you look at our GLNG signal analysis, you'll see these numbers.

Mark Santer: (Credit Suisse, Analyst) Okay, but - so for the $107 million spent in 2013, none of that is also included in the exploration CapEx that you have disclosed obviously? It's not double counted?

Andrew Seaton: No, it's not double counted.

Mark Santer: (Credit Suisse, Analyst) Right, so this is incremental exploration CapEx on what is reported as exploration CapEx?

Andrew Seaton: It's more evaluation, so appraisal CapEx.

Mark Santer: (Credit Suisse, Analyst) Okay, but yes, so none of it is double counted.

Andrew Seaton: No.

Mark Santer: (Credit Suisse, Analyst) Are you able to give us a guide for 2014 and 2015 for what kind of numbers we should be expecting?

Andrew Seaton: Just similar to what you see in 2013, so close to $200 million for the [unclear] stay in business, domestic CapEx as well as the evaluation CapEx.

Mark Santer: (Credit Suisse, Analyst) Okay, so we're talking about probably at the gross project level over the life of the project an incremental $2.5 billion being spent that wasn't - I don't know. You said it was never in your initial budget, but I guess [unclear] the budget that was given at the time of FID, just there's an incremental $2.5 billion at the gross level that was never included in that budget that will be spent?

Andrew Seaton: No, that's certainly not the way we think about it, Mark. We think about the project as delivering first LNG cargos in 2015 and liquefying those cargos and sending them off to our customers. Quite separate to that is domestic gas where we have been producing about 130 terajoules a day for some years now. So there is operating cost and there's capital cost associated with that, which was never part of the project. There's also exploration and evaluation which is effectively across the portfolio. But again you can't allocate to the specific GLNG project. So the scope of the GLNG project was quite clear. It was to drill a certain number of wells, it was to build compressor stations and it was to build a pipeline and an LNG plant. That is $18.5 billion and that has absolutely not changed.

Mark Santer: (Credit Suisse, Analyst) Okay. In 2015, is there likely to be sustaining CapEx that you will attribute as non-budget as well as it relates to production once it begins? Is that likely to be the case in 2015, do we think?

Andrew Seaton: Well, once we move from the - or from the construction into the operations phase, then you move into OpEx and sustaining CapEx. That will continue to roll on, as you'd expect, with any project of this nature.

Mark Santer: (Credit Suisse, Analyst) Sure, okay.

Andrew Seaton: But at the point that we transfer assets over from development to operations, we stop capitalising the costs on those projects.

Mark Santer: (Credit Suisse, Analyst) Sure, okay, and just a question on - you highlighted that you are still in the market for third party gas. I mean, obviously internally you will model this project. Are you able to share with us what you model for lifecycle project gas coming from third parties?

David Knox: As I said, Mark, we've always sought to optimise our capital efficiency. We continue to do that. Where third party gas deals fit the profile and are sensible, we'll continue to do them. Sometimes we're successful. Sometimes we're not. That's going to continue.

Mark Santer: (Credit Suisse, Analyst) Okay, so you're not willing to put a number around expectations?

David Knox: No, but you can see we've currently - have effectively got something like 350 terajoules a day of third party gas coming in from the Horizon, the Origin deals [unclear].

Mark Santer: (Credit Suisse, Analyst) Yeah. Last question and maybe it's a slightly unfair question, but as you highlight the [board] of operational cashflows that are coming and we need to think about reinvestment opportunities and risks and [unclear] what you think is a palatable return, knowing what we know now, if we were sitting 13 January 2011 again, would you still sanction GLNG?

David Knox: Absolutely, and this goes to the heart of the strategy. So why have we done this? We've done it because we have extremely strong resources in Eastern Australia. Those resources were facing a flat market in Eastern Australia. By creating GLNG, we are now facing a completely different price deck, a completely different market. Effectively in the long-term, we have transformed this Company from an East Coast gas company into an Asian LNG player to a much stronger price deck, a much stronger market. That is the investment proposition. That's the one that I fundamentally believe is going to create massive value for us in the long-term.

Mark Santer: (Credit Suisse, Analyst) So you don't think that would have happened if only [unclear] had sanctioned? You think you needed all three projects to have that impact on the East Coast gas price or...

David Knox: I'm not commenting on them. We, of course, were the first ones to conceive this and led the whole [unclear] out.

Mark Santer: (Credit Suisse, Analyst) Second to sanction though.

David Knox: This has always been our strategy and obviously we now have two others who agree with that strategy.

Andrew Seaton: We were the first mover. We bought...

Mark Santer: (Credit Suisse, Analyst) Second to sanction.

Andrew Seaton: ...[unclear] in going from 100% of the project down to 70% of the project. We took several billion dollars of value at that time. GLNG over the longer term, with the transformation of East Coast gas, will deliver great value for our shareholders.

David Knox: The other thing that's very important to say, Mark, here and the other really critical factor here is we've been able to unlock our Eastern Australian gas resources. Yes, some of them are going to go to the GLNG, but also we're able to - because we've got more economies of scale - we're able to drive those resources also to the domestic market in the long-term. This is partly what this New South Wales announcement has been about. It's about unlocking these resources [unclear] domestic and to international markets. That's what the strategy has been. That's strategy in action.

Mark Santer: (Credit Suisse, Analyst) Sure. Sorry, I'm waffling on. I'm taking other people's time. But I mean, against that are you able to give us a feel [unclear] invest in GLNG across the whole portfolio, can you give us a feel for the returns you think you're going to receive from the GLNG CapEx book returns across the whole portfolio from what you're talking about?

David Knox: Well, clearly if our strategy plays out, the returns are going to be very strong. Ultimately it's going to depend to some extent on oil price, but as you can see, currently we're facing a very strong oil price deck. The contracts are priced in US dollars as well, so obviously exchange rate comes in. But I think when you step back, what we've done is we've taken our resources which were previously facing a very flat decline in the Eastern Australian market and [we're now facing] them to the fastest growing market in the world with a strong price deck. We have underpinned this Company for the next 20 to 30 years. That is not a small transformation and it's not a small strategic step. It is a major strategic step. I think it'll deliver long-term shareholder value, say, for the next 30 years.

Mark Santer: (Credit Suisse, Analyst) Brilliant. Thanks very much, guys.

David Knox: Thank you very much, Mark.

Operator: You have a question from the line of James Bullen from Merrill Lynch. Please go ahead.

James Beleen: (Merrill Lynch, Analyst) Morning, gentlemen. Just another question around the GLNG reserves. I'm just trying to reconcile if I do gross up that exploration and appraisal spend from $270 million, it goes to $900 million. Just wondering why that hasn't resulted in reserves additions at GLNG?

Andrew Seaton: I guess, James, we've been moving up the Arcadia Valley. We have quite a lot of 2C contingent resource books in the Arcadia Valley. A lot of this expenditure is in getting pilots underway. As we get the pilots started up, we get the coal seams dewatered and we start to produce gas. We should then be in a position to book additional reserves over time. But it's really just part of the natural maturation of the resources play that is coal seam gas.

James Beleen: (Merrill Lynch, Analyst) I guess you are now ahead of the drilling schedule and you've highlighted that Fairview at least is exceeding expectations. Does that mean more rigs are going to be allocated to exploration appraisals so that we can start to see more 2P reserves and therefore, I guess, greater certainty around your reserves position?

David Knox: No, it doesn't necessarily mean that. We've obviously said this. We're going to do about 100 wells in GLNG, maybe 110. What it means basically is that we're able to focus on making sure we optimise the [unclear] wells we're drilling. We're starting to do quite a bit more air drilling than we have done before. So we're able to optimise. As we always said, we're going to learn as we go through this project. It allows us to really reflect and learn without being under enormous pressure to drill a huge number of wells. This is a very good news story for us to get far greater drilling efficiencies, drilling fewer wells and getting far better flow rates. The exploration aspects will continue at very much the same levels we've always done as part of an annual work program and budget. Now at the end of the day, we just need to prove up enough reserves in order to keep this plant full. That's the pace. That's what determines that pace.

James Beleen: (Merrill Lynch, Analyst) Great. Just can I confirm as well around the Cooper? Are you still on track now to reach that 30% increase in well head capacity?

David Knox: Yes, we will do that. Obviously that's important for supplying the Horizon project while continuing to supply our domestic gas volumes, so yes. Obviously the projects being done in the Cooper to increase our CO2 capacity is all part of that. That is going extremely well.

James Beleen: (Merrill Lynch, Analyst) Thank you very much.

David Knox: Thank you.

Operator: You have a question from the line of John Hirjee from Deutsche Bank. Please go ahead.

John Hirjee: (Deutsche Bank, Analyst) Thank you. Good morning, everyone. I wanted to ask a question on GLNG reserves. Last year, you provided a 3P count. This year, not so. I was wondering if you could just give us some idea of the 3P reserves for GLNG?

David Knox: Yes, no, we haven't given you a 3P in ASX. It's always an interesting thing to provide. It's obviously not in the ASX guidance right now. I don't think we can say anything super intelligent about 3P. I don't believe, John, that it's changed significantly from where we've had them before.

John Hirjee: (Deutsche Bank, Analyst) Okay.

David Knox: But got to be careful with 3P. 3P is reflected in the fact that it's - you're not talking about 50/50 probabilities when you're talking about 3P.

John Hirjee: (Deutsche Bank, Analyst) [Unclear].

David Knox: It's an interesting number, but you've got to be a little careful of it. I think the real [unclear] is to focus on our 2P and then 2C which are both [unclear] 50% probabilities.

John Hirjee: (Deutsche Bank, Analyst) All right. Then again on reserves, you mentioned the [unclear] Bayu-Undan. Can you talk about whether the reserve life that you have remaining in that project can meet your contractual obligations for the LNG?

David Knox: Good question. The answer to that is yes, it can. What this opens up, John, if you're looking more strategically, however, to open the conversation a bit, is opportunities for - we've always seen Bayu-Undan plant as a great place either to build a new train or to provide gas into the existing train. So clearly for us, because we've got good ownership of gas in that area, particularly with [unclear] which is unallocated, it provides us strategically a good opportunity to continue to supply the plant well beyond its current reserve life and well beyond its current contract life and potentially add another train. So that's the real strategic overlay, yes.

John Hirjee: (Deutsche Bank, Analyst) Yes, understood. Finally, Andrew, just a minutiae question, I guess. Can you give us the current franking credit balance that you have on your books?

Andrew Seaton: I believe it's about $870 million.

John Hirjee: (Deutsche Bank, Analyst) Right. Any plans for that in terms of the capital management that's coming up ahead?

David Knox: It's all about increasing the dividends, John.

Andrew Seaton: Yes, John, it is all about increasing the dividends. I think when we do increase the dividend, there's scope to also keep the DRP in place so that we can perhaps increase the dividend to a higher level, but with that DRP manage the cash outflow. Then as the earlier question was whether we'd consider other capital management strategies, certainly nothing is off the agenda at the moment.

John Hirjee: (Deutsche Bank, Analyst) Right. Thank you very much, David and Andrew.

David Knox: Thanks, John.

Operator: Your next question comes from the line of Stuart Baker from Morgan Stanley. Please go ahead.

Stuart Baker: (Morgan Stanley, Analyst) Morning, gentlemen. Most of my questions have been addressed, so thanks for that. But just to follow-up on, I guess, some other things that didn't receive really any attention there, but just perhaps if you could just update us on the status of, say, Bonaparte LNG and [unclear] and the drilling activities offshore, Darwin [unclear], et cetera, and also what your plans are re the next phase of drilling up at Bayu and whether it is going to happen and what the costs of that might happen to be? Thanks.

David Knox: Taking the last one, Bayu-Undan, I can't say anything too much about that. I would certainly come back to you on that one. I'm not across the exact details of what's happening there.

But on [BLNG], I certainly can. We've just come to the end of a very detailed phase of concept definition, let's call it, with very, very detailed concept definitions where we've been in discussion with two consortia who can actually build this vessel and build the systems and processes on top of it and who have ship yards also in their consortia. So we've come to that stage. We've come to an end of the phase where we've been looking very hard at the reservoir. We've done all that evaluation. So we're now assessing the project to potentially enter into FEED over the next - certainly first half of this year. That's a big step that all the partners have to make. That decision is being considered, as I say, over the next few months.

That project overall is very exciting. It's new technology for us. It's a 2.5 million ton boat, so we're not talking about the super big boats. It's a much smaller boat. It's based on basically a very large crude carrier hull, not one of these absolute monsters. It's also in slightly more benign or considerably more benign environmental conditions, so there's different design parameters, say, for, [unclear] or the very big boats that have been contemplated in the Browse Basin. So I think it's a really interesting project. As I say, we'll be able to make the decision along with the partnership about whether we go forward into FEED will happen in the next 6 months.

To Caldita/Barossa drilling, we're not far away from starting drilling. I think it's a two or maybe it's a three well campaign in Caldita/Barossa. The big thing on Bayu-Undan I know that is in our plans for this year is we do have a big shutdown of 30 to 40 days on that just to make sure that the platform is extremely well maintained.

Stuart Baker: (Morgan Stanley, Analyst) Thanks, David.

David Knox: Thank you. I'll come back to you on Bayu-Undan in more detail or Andrew will.

Stuart Baker: (Morgan Stanley, Analyst) Okay.

Operator: Your next question comes from the line of Nik Burns from UBS. Please go ahead.

Nik Burns: (UBS, Analyst) Thanks, guys. Look, I just had a question on New South Wales coal seam gas. It seems it's an area of focus for the Company at the moment. In terms of going forward, previously you've talked about investing about [unclear] on exploration and appraisal over a three year period. Just wondering if we're at the start of that process now? Are you looking to accelerate that at all? I think I've also read where you are targeting to get the gas into the New South Wales market by as early as 2017. Just given the fact that if you are looking at a three year exploration and appraisal period, how realistic is that timeframe or do you think it could be two or three years after that?

David Knox: Good questions, Nik. So yesterday was a very important step for us. New South Wales government clearly recognises the importance of this project. There's been a process now laid out for project approvals. Of course, that's not the same as having the approvals, but there's a process and a timetable laid out for those approvals. So this is a very important step that was made yesterday. I'm very pleased with the support the New South Wales government has given us on this project. We're on the ground right now. There are two things to say - firstly that we've completed five appraisal wells and they're done. We've got another 10 that we're doing as part of the current program. So that's the first thing that on the ground we have a rig operating. We've done five, got another 10 to go. The second important thing is that, as you can see on the photograph - I think it's on slide 30 - we're well through building a set of water containment ponds which are outside the Pilliga Forest or scrub as the locals call it. They're outside that. Those ponds will allow us to bring those appraisals and our current pilots online so that we start to get some really good firm appraisal data which we can then start to write [in the] field development plan on.

Assuming we do that and assuming we get our environmental approvals in in the middle of this year in accordance with the Memorandum of Understanding we just signed yesterday, then yes, we can run a pipeline in 2017 [for first gas is achievable]. Then potentially as we've said, we can build up to somewhere between 25% and 50% of the state's needs from 2017 onwards. So this is a very exciting resort. I think we've got something like 1000 - certainly more than 1000 [unclear] here - well, maybe it's even 1500 - in the Gunnedah Basin. So this is, all in all, very good news for us.

Nik Burns: (UBS, Analyst) Great. Thanks, David.

David Knox: Thank you for asking.

Operator: Your next question comes from the line of James [Cavanagh] from Intrinsic Investment. Please go ahead.

[James Cavanagh]: (Intrinsic Investment, Analyst) Hello, David. Could you please comment on what you think are the two most likely scenarios or the outcome with [Arrow Energy's] gas?

David Knox: Very interesting question. I won't obviously comment specifically on this other than to say that, as everyone's heard many times, we're always willing and open to collaborate. We demonstrated that with QGC last year and also with APLNG. So the same offer is open for Arrow should they wish to take it. We would welcome collaboration. We believe that by working together - however that might be, even to the extent of additional trains, et cetera - makes far more sense than projects going it alone. So we're very much open for business here and we'll see what choices and decisions Arrow make. That's entirely in their hands.

James Cavanah: (Intrinsic Investment, Analyst) Okay. Thank you, David.

David Knox: Thank you, James.

Operator: Your next question comes from the line of Peter Harris from JCP Investment Partners. Please go ahead.

Peter Harris: (JCP Investment Partners, Analyst) Good morning and thank you for the presentation. Just to follow-up on Nik's question - slide 15 and 16 - you've got nearly as much gas in - or 2P and 2C gas in New South Wales as you have in the Cooper in a state that's going to run out of gas by 2017. How quickly can you get after it? Because I look down at slide 16 and you see the [unclear] so I'm assuming that how quickly you could get after it would be driven by how slow government approvals are. How well or slowly could you go?

David Knox: So Peter, obviously we've been doing our best to get after it up till now. We've got a rig on the ground. We've got five wells done. We've got another 10 to do. We'll incorporate all of that data. I think there are seven or eight pilots now. We've got the Leewood pond, so not quite done, but you can see the liners going in. We'll have them done certainly by the end of - certainly the first half of this year. That will allow us to get the field back up, get it back and running, dewater it. Now we will see what those results are. If those results are wildly positive and [it seems] they could be, then we will be able to get after this.

We've got a very good resource base. We know how to unlock it. We've got the technology. We've now got the government support. We'll put the environmental approval in in the middle of this year in accordance with this timetable. So absolutely we'll be able to go foot to the floor for having a gas pipeline into the Moomba to New South Wales pipeline that goes - the pipeline will basically go south from the field, having that line in so that we can bring gas on in 2017. From then on, we can just build and build and build. So yes, this is a really exciting project. Of course, it's exactly why we got our foot in it in the first place. It's in the best place. If you want to develop a coal seam gas project, a great place to do it is the Narrabri area, in particular the Pilliga Forest or scrub as the locals call it.

Peter Harris: (JCP Investment Partners, Analyst) But you mentioned though, I think you said [unclear], so even if it starts in 2017, it's pretty hard to ramp it up just given in that near-term growth options, it's [unclear].

David Knox: I wouldn't say that. We would put in a reasonably sized compressor station upfront and then we can add from there. Obviously we've learned a huge amount in our Queensland experience about modularising all of this and building it so you can add on, so I think we'd be able to manage the ramp-up pretty well if the well results really support that. We'll find that out, next 6 months.

Peter Harris: (JCP Investment Partners, Analyst) Okay.

David Knox: But I'm very, very pleased with the support of the government that occurred yesterday, the public support recognising the importance of this gas for the New South Wales state. Not to go onto a political drum, but it's about jobs, it's about creating wealth and it's about [allowing manufacturing in the states]. Without it, they're going to be short, so this is really important.

Peter Harris: (JCP Investment Partners, Analyst) [Unclear] run out, I guess, but I think we're okay down in Victoria for a while.

David Knox: I hope they don't in New South Wales. Thank you, Peter. If there are no other questions - is there another question?

Operator: There are some other questions on the line. The first one is from Adrian Wood from Macquarie.

Adrian Wood: (Macquarie Group, Analyst) Yes, hi, David. Sorry, just a quick follow-up to the CapEx at GLNG, so we've spent $1.3 billion to date on that slide 12. You said the current run rate in 2013 is probably representative, so that takes us to about $2.5 billion at the gross project level to FID. I wondered if you can just talk to me a little bit about what reserves have been developed there for the domestic market as a result of that spend? Also, post start-up of GLNG, I'm guessing that with the 6800-odd organic resources that you've got - [unclear] sorry, that are organic to GLNG. I suspect that as soon as the project starts up, you're going to be diverting that production straight into the export market rather than continuing to service the domestic market. Is that the correct assumption?

David Knox: Yes, our domestic contracts don't fall off immediately. They come off over a period of time, Adrian. We'll honour them, of course, until they're completely [unclear] sure. I think 2022 is our last domestic contract, so we'll obviously be supporting and honouring our domestic contracts right the way through.

Adrian Wood: (Macquarie Group, Analyst) Sure, but my point is that this CapEx is being stripped out of the LNG projects, but by 2022 you're saying that all this gas actually is going to be going into the LNG projects. Is that the correct reading?

David Knox: Well, potentially unless we sign some more domestic contracts, yes. We currently produce about 120, 130 terajoules a day of gas into domestic contracts. We've done so for a very long time. Fundamentally, this money obviously funds [that] in our annual budgets. It's in our annual capital spend. We get revenue for it as well.

Adrian Wood: (Macquarie Group, Analyst) Of course.

David Knox: Of course.

Andrew Seaton: This is maintenance CapEx on the existing two compressor stations that are there - the pipeline compressor station, the Wallumbilla compressor station. It's all of the kit some of which is 10 years old, so it's the maintenance and the upkeep and the development of that existing domestic gas business.

Adrian Wood: (Macquarie Group, Analyst) Yes, okay. All right, thanks very much indeed.

David Knox: Yes. Thanks, Adrian.

Operator: You have another question from the line of Paul Phillips from Perennial Growth. Please go ahead.

Paul Phillips: (Perennial Growth, Analyst) Hi, guys. So just to be clear on that slide 12, that's not net of revenue received, is it, i.e. revenues would have to be netted off against that?

Andrew Seaton: Yes, that's right, so this is just capitalised, capital expenditure. What we've got is revenues and operating costs that flow through the [PNL].

Paul Phillips: (Perennial Growth, Analyst) Yes. So if you thought about in terms of like a mining project, right, generally what happens is you get this early production that you generate some revenue from but you don't [clear it commercially]. You can still capitalise it. It offsets the total CapEx. You could think about this in the same way, I'm assuming.

Andrew Seaton: Yes, I guess part of this is akin to stripping costs where some of our dewatering costs we treat as stripping costs and we capitalise to the balance sheet.

Paul Phillips: (Perennial Growth, Analyst) Yes, okay.

Andrew Seaton: So yes, exactly the same as a pre-strip in a mining operation.

Paul Phillips: (Perennial Growth, Analyst) Yes, but you've generated some revenue which isn't shown in the numbers.

David Knox: Yeah.

Paul Phillips: (Perennial Growth, Analyst) The other question, David, was just to clarify one of your points. Correct me if I'm wrong, but you said Q1 of this year you're going to be delivering gas for Bechtel to start commissioning the LNG plant. Is that correct?

David Knox: No, I said the pipeline will be finished by the middle of the year and in time to deliver gas to Bechtel.

Paul Phillips: (Perennial Growth, Analyst) [Unclear] middle of the year.

David Knox: Yes, I think we said Q2 actually but middle of the year basically. That will allow us to - and that's very important. That certainty's very important, because what that allows us to do is deliver the 7 to 10 terajoules per day - it's quite a low volume to Bechtel - to allow them to get the utilities going. Once they've got the utilities going, they can power up the plant electrically and then they can start to consider running the main compressors. So it's very important for Bechtel's commissioning schedule that we're able to supply those volumes from the middle of this year. We'll be able to do that now.

Paul Phillips: (Perennial Growth, Analyst) How long after providing first gas would you expect them to start the commissioning of the gas compressor?

David Knox: Obviously we'll want to get our gas to the gate and be ready for them. It's obviously up to them as to exactly when they call for that gas. They have a mechanism in the contract to call for that gas. So the key thing from shareholders' perspective is the pipeline is de-risked and it will be completed in time to make sure we can meet the Bechtel obligation so that they can deliver the first cargo of LNG in 2015 with frankly some considerable certainty.

Paul Phillips: (Perennial Growth, Analyst) Yes, I appreciate that you don't want to really narrow the start date.

David Knox: No, I'm not going to narrow things down at this stage. I believe that that's appropriate.

Paul Phillips: (Perennial Growth, Analyst) Yes.

David Knox: These are very, very large projects. We've always said we'll start up in 2015. What I'm saying to you today is that we will.

Paul Phillips: (Perennial Growth, Analyst) Okay. [What if I was] to compare you to BG's latest guidance? Some of the milestones that they've provided would be a pretty good starting point in terms of lengths of time.

David Knox: Well, I haven't studied BG's [margins] very closely to be frank, but I do expect them to start-up in front of us. But that's about all I can say that's intelligent about that. I haven't studied their project closely.

Paul Phillips: (Perennial Growth, Analyst) Right, okay. Thank you.

David Knox: Thank you.

Operator: You have a question from the line of Di Brookman of Bell Potter. Please go ahead.

Di Brookman: (Bell Potter Securities, Analyst) Hi, David.

David Knox: Hi, Di.

Di Brookman: (Bell Potter Securities, Analyst) In your research report, you've indicated that progress to comply with the new [SPE] rules has been ongoing in 2013. Is that progress complete or are we expecting some further adjustments into 2014?

David Knox: These [unclear] rules are clear and stringent. We just continue to apply them, Di. So as we go forward, we will continue to apply these new [PRMS] guidelines. Obviously can't comment as to whether it'll make any difference or not. Our reserves process - which Andrew is ultimately in charge of - is very, very vigorous and highly technical process and complies with these guidelines. If anything, we're probably slightly conservative, but that's not a bad place to stand.

Di Brookman: (Bell Potter Securities, Analyst) Thank you. I assume that the reduction in the 2C resources actually moved to 3C. Is that where it's gone?

Andrew Seaton: Yes, Di, perhaps if I talk to that. The thing about the new [SP PRMS] guidelines is really around a discovery test. What it does is it makes it a lot more stringent on the need to get gas to the surface to be able to book a contingent resource, a 2C contingent resource. Also, it limits the extrapolation of the [aerial] extent of that resource away from the known gas to surface. That's why we've seen some downgrades the last two years.

What you see in this year's reserve report is an extension of that discovery test where the intention in the Cooper was to do more [unclear] projects. So on the back of the success in Moomba-191, it was to go into existing [unclear] at quite low cost and appraise the shale zones, the unconventional zones through those existing [unclear]. What we've done, though, is looked at the metallurgy of the existing [unclear] and found that it's not really suitable to be able to do those [unclear] projects. You need to have a different spec of steel in [unclear], so we've had to change our plans, not do those projects. So because we don't have the intent to do those projects, we can't then carry the 2C. So our belief in the [prospectivity] of the acreage has not changed. In fact, the recent results probably improve that belief, particularly around the deep coal. What it is is purely a technical definition. That is around the near-term intention to appraise those exact horizons.

Di Brookman: (Bell Potter Securities, Analyst) Right, so what's the classification in near-term? Is that within 12 months or...

Andrew Seaton: Yes, it's not actually defined in SP PRMS. This is one of the things that we discussed. It's not 12 months. I think you can have it over several years, but you need to clearly have it budgeted for, clearly have teams working up the design of the wells and the design of the program. So as with all of these things, it's not a black and white, hard and fast test. There is a degree of judgement gets brought to bear. I dare say we take all this very seriously to the extent of probably being conservative with the way that we book our 2C and 2P.

Di Brookman: (Bell Potter Securities, Analyst) Thank you.

David Knox: Thank you, Di. Can we have one last question? Then we should wrap.

Operator: There are no further questions at this time.

David Knox: Good. Well, thank you very much everyone and look forward to meeting you over the next few weeks. Thank you very much for joining us. Good morning.

Operator: Thank you, ladies and gentlemen. That does conclude our conference for today. Thank you for participating. You may now disconnect.

End of Transcript