
SANTOS 2014 HALF-YEAR RESULTS

22 AUGUST 2014

CONFERENCE CALL TRANSCRIPT

Start of Transcript

Operator: Ladies and gentlemen thank you for standing by and welcome to the Santos Limited 2014 Half Year Results Conference Call. At this time all participants are in a listen only mode. At this time 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 *1 on your telephone. I must advise you that this conference is being recorded today Friday 22 August 2014. I would now like to hand the conference over to your first speaker today Mr David Knox, Managing Director and Chief Executive Officer for Santos Limited. Thank you, please go ahead.

David Knox: Thank you very much, Vince, good morning and welcome to Santos' 2014 Half Year Results Conference Call. Joining me on the line today is my CFO Andrew Seaton. In addressing the results we'll refer to the presentation which has been released this morning and is available on our website.

Now turning to the cover of the deck, you can see the first cargo from PNG LNG being loaded onto the Spirit of Hela. The first cargo was not only a significant milestone for Santos but also for our operator Exxon Mobil and of course for the people and Government of Papua New Guinea. I had the pleasure of being in PNG last week to watch the loading of the 19th LNG cargo onto the same ship. That is a clear confirmation of how well the commissioning and ramp up of the plant has gone. This is something of course that we're going to aspire to as we do the same when we bring on GLNG next year.

I am now going to jump straight to slide 3. In presenting the results for you today we will focus on four important highlights in the first half. First, strong project delivery. PNG LNG is already producing at full capacity and GLNG is on track to start up next year. In fact GLNG is now better than 85% complete. These two projects will deliver materially higher revenues and cash flow for the Company. We have also delivered first production from Peluang in Indonesia and also Dua in Vietnam. Secondly, Andrew will talk to the sound operational performance in the first half that delivered growth in revenue, EBITDAX, underlying profit and operating cash flows.

Thirdly the start-up of PNG has enabled the Company to increase returns to shareholders. We are announcing today a 33% increase in the interim dividend. During the construction of the LNG projects we have had seven halves at \$0.15 dividends. With the early start-up at PNG we have received the first cash flow from the project in July, this has been the key to enabling us to increase the dividend now. Finally we have announced another significant exploration discovery in the Browse Basin with the Lasseter well this morning.

Turning to slide 4, operational and financial performance are dependent on our attitude towards and execution of safe operations in every sense of the word. I think these safety performance results underscore the Santos leadership team's commitment to continual improvement in the safety of our people and also of our operations. To put these statistics into perspective, Santos and its contractors have worked some 32 million man-hours so far this year. Achieving this safety performance at a time of very high activity is especially important. It is important for the safety of our people and also for the successful delivery of the projects. I am very pleased to report that drilling and completions across the entire Company achieved six months without a lost time injury. On safety critical maintenance for direct operated assets our score was better than 98% which is our target. We have paid very strong attention to learning from the high potential incidents and this is driving further improvement to core safety processes and also to culture.

Now with that very brief overview I'm going to ask Andrew to take you through the financials in some more detail. So over to you, Andrew.

Andrew Seaton: Thanks, David, and good morning to all. You can see the summary of financials for the half on slide 6. These numbers underscore our sound financial performance but more importantly they point to our improving outlook. We saw the beginnings of the improved production during the first half and the second half production outlook is clearly stronger. Margins are growing as well as our portfolio is increasingly linked to the oil price. We remain well funded to execute our strategy and the business is generating strong cash flow.

If you turn to slide 7 I'd like to talk more about the dividend. The Santos Board and Management are aware that returns are a key priority for shareholders. Our aim is to strike an ongoing balance between higher dividends, debt repayment and the continued investment necessary for growth. As you will know we reduced our dividend payout in December 2010 given the funding that was required for our two major LNG projects. With PNG LNG successfully starting up ahead of schedule in April and with GLNG now progressing well towards completion we have the capacity to now increase the dividend.

As David said, we received our first cash flow from PNG LNG in July. To enable this we have put a letter of credit in place so that we could get early access to funds from the Project Finance Distribution Account. This is highly efficient for us as we have a positive carry on the resulting cost of funding. The letter of credit was underpinned by our strong investment grade credit rating and our robust balance sheet. We intend to continue to access our share of PNG LNG cash in this way. Looking forward we plan to maintain or increase each dividend as earnings and cash flow increase. We expect that the level of dividend will next be reviewed around the time of GLNG start-up.

The growth story is evident when you look at our production on slide 8. The start-up of PNG LNG contributed to the increase in first half production but the real benefit of this project is clearer when you look at our July production of 164,000 barrels a day which is some 20% above the first half average. PNG LNG is now fully ramped up with both trains producing at full capacity and this will drive a stronger second half of production. However, offsetting this to some extent is the impact of a planned 35 to 40 day statutory shutdown at Bayu-Undan as well as a 45-day shutdown of the Fletcher Finucane FPSO for repairs and maintenance. Our full year guidance of 52 million to 57 million barrels of oil equivalent is unchanged. So overall the production snapshot is that we've had a sound first half and that we do have a stronger second half to come.

That's also the case with sales revenue and EBITDAX on slide 9. EBITDAX was 13% higher which reflects higher revenues and also the sound operating performance across the business. Our third party business continues to perform well as we leverage our infrastructure position. We make a margin from all third party oil produced in the Cooper plus we sell third party gas and liquids in Eastern Australia. We expect stronger revenue and EBITDAX in the second half as our production continues to grow.

Moving to production costs on slide 10 whilst both production costs and DD&A have increased during the first half it is important to remember that one of the main drivers has been the new assets that have come on line. Production from these new assets, so PNG LNG and to a lesser extent Peluang is sold at higher prices and overall this is resulting in margin growth for the Company. Of the \$48 million increase in production costs \$15 million can be attributed to these new assets coming on line and also a full half of production from Fletcher Finucane. There is also \$21 million for work overs and other costs and \$12 million in relation to currency movement as the Australian dollar weakened against the US dollar. It is a similar story with DD&A. New assets on line contributed half of the increase in DD&A from the first half of 2013. The remainder has been due to foreign exchange impacts and a higher dollar per barrel rate.

On the next slide you can see the higher underlying net profit after tax for the first half of \$258 million. Higher prices and higher volumes contributed strongly. This was partially offset by higher exploration and evaluation expense, higher production costs and also higher net finance costs. On the latter with PNG LNG now in production we have ceased capitalising interest on that asset. So you'll see a higher interest expense going forward. The reported net profit after tax figure of \$206 million is primarily due to the impairment of the Indonesian CSG assets that we flagged in the second quarter report.

Turning now to operating cash flow on slide 12 it's this chart that really highlights the growing strength of the Company. We recorded our highest ever first half operating cash flow of \$744 million and this will be higher again in the second half. As I've said before, we expect operating cash flow to more than double from 2013 levels by 2016.

On the next slide, slide 13 you can see the breakdown of capital expenditure of \$1.9 billion. As you'd expect GLNG was the largest item of expenditure at \$795 million. This represents all of the Santos spend in relation to GLNG and includes \$65 million for domestic stay-in-business capex, exploration, appraisal and also Santos corporate costs. We spent \$440 million in the Cooper and over \$170 million in other eastern Australian assets which includes our share of the Combabula and Spring Gully developments and also Narrabri, Mereenie and some other assets in Eastern Australia. Capitalised interest for the first half was \$124 million. Our full year capex guidance of \$3.5 billion, which excludes capitalised interest, is maintained.

So to summarise I am confident that we have the momentum for a stronger second half. Our major projects are now clearly proving to be the foundation for further growth and increased shareholder returns as we said they would be when we committed to them some years ago. We are confident of our position. We remain committed to strong financial discipline across our operations also capital management and continued investment for growth. With that I'll hand back to David.

David Knox: Thank you very much, Andrew. Now our financial performance is of course underpinned by the projects. I want to review the key projects over the next few slides. I am now on slide 16.

I am going to start in Asia. Last week in Vietnam Chim Sào surpassed the milestone of 25 million barrels of oil production. Initiatives to improve the reliability of the Chim Sào facilities were successfully undertaken in the first half. Further works are planned for later this year to ensure the improved performance of the FPSO. The field is currently producing around 28,000 barrels per day

which is an improvement on what we saw in the first half. I am also pleased to say that the first of the Dua development wells have now been brought into production.

In Indonesia our team delivered the first gas from Peluang ahead of schedule in March. Importantly this project was delivered with an impeccable safety record. Peluang is our fourth operated asset in East Java and it underscores our ability to deliver new projects in Indonesia. Also pleased to say that the team is making good progress on Ande Ande Lumut. The FEED studies are well underway on the wellhead platform and also the FPSO and we expect to be in a position to take a final investment decision late next year.

We've also made our first entry into East Malaysia through an agreement to acquire a participating interest in exploration acreage located in the Sabah Basin. Santos has acquired a 25% participating interest in the deep-water Block S production-sharing contract from Inpex. The participants in the PSC will be Inpex who are the operator with 50% and Santos and Petronas Carigali each with 25%. Block S lies in the heart of the prolific Sabah Basin. It's surrounded by large commercial oil and gas discoveries and there is significant existing infrastructure and production from the area. 3D seismic has resulted in two significant drilling opportunities, the first of these the Telus is expected to spud in the fourth quarter of this year.

I am now going to move much closer to home and to onshore and we drilled nine appraisal wells in Narrabri. These wells are being hooked up to our new water handling facility at Leewood which is just north of the Pilliga Forest where the first two of our 150 megalitre ponds have been commissioned. The test results from these wells will be added to the data from the stock of existing wells, the 15 existing wells, to inform the design of the 2015 work program for the Narrabri gas project. We also continue to transfer water from the legacy ponds at Bibblewindi to our new facilities at Leewood and we expect this work to be completed very soon.

I am now going to turn to PNG LNG on slide 17. Last Friday night I had the great privilege to join Exxon and the Government of Papua New Guinea to celebrate effectively the start of this project, though of course it started up as Andrew said in April. It was an extraordinary evening and it was a celebration both of the success of Exxon but also of all parties that have been involved in this project. I think that the thing that you would take away if you were fortunate enough to be there that night was above all the transformation and the importance that this project is for the people of Papua New Guinea and the country of Papua New Guinea. It was a real pleasure to sit on the Prime Minister's table and hear him stand up and say in his first line of his speech that this was one of the speeches that he was proudest ever to make. It's rare in the oil and gas industry that

we can make such a contribution but I firmly believe that Santos, along with our operator Exxon, we've made a massive contribution to PNG.

This is of course borne out by the fact that today more than 20 cargoes have been shipped to our customers in Asia. The remaining activity on the project is of course drilling and that's going to bring me onto slide 18, if I could go to 18. All eight Hides development wells have been drilled. Six of these are on production and the final two wells in the G-pad are being completed. The development and produced water well results will be used to redefine the Hides reservoir model. We believe that there is significant scope for upsides in the Hides reservoir volumes. At the same time Exxon will commence the drilling of the exciting Hides, what is now called F1 well, previously known as Hides Deep this well is designed as both a Hides producer and also to penetrate the deeper exploration target directly below the existing Hides' fields.

Now the important thing is that Santos has a 24% interest in this prospect through our ownership of PRL 1. We are well placed to benefit from the expansion of PNG LNG however we are confident expansion will happen, however it's still a little early to predict exactly how and when this will occur. The important point is that as an existing infrastructure owner and the holder of prospective acreage whatever the source of that expansion gas Santos is very well placed to benefit.

Now outside of the PNG LNG project we've also had exploration success in the first half with gas discoveries at Manta and also at NW Koko. We are now working with our partner Talisman to determine the next steps in our evaluation program.

With that I am now going to turn to GLNG on slide 19. GLNG is on schedule and on budget to deliver its first cargo next year. I have to say we are really pleased with progress from the drilling, through the pipeline and also the progress on Curtis Island. As I've said already the project has now moved past the 85% complete mark.

Let's start with the upstream works on slide 20. We've drilled almost 600 wells. 600 wells have been drilled since FID, 77 were spudded during the first half and we continue to see good performance on drilling and time and cost. Our guidance on drilling is unchanged, we expect to drill around 300 wells over this year and next combined.

Fairview production capacity continues to build ahead of expectations and our own plan. The wells are now averaging 2.2 TJ per day per well. That's up from 1.8 at our last update to you in February. This performance underlines the confidence we have in this field and supports our ramp up production profile. In Roma we are also building a strong base of dynamic data and there is real potential for upside here as well. Currently we have over 50 wells flowing. Even more

encouragingly is the fact that we also now have our first well that's producing more than 1 TJ per day. This is a good basis for the confidence that future production capacity of the field will comfortably achieve our planning basis.

Construction of the upstream surface facilities is basically complete. Two of the three hubs have been handed over for commissioning with construction of the third now very well advanced. Our upstream facilities will be ready to supply gas when it is needed.

Turning to the pipeline and the LNG plant on Curtis Island. I am now on slide 21. Some of you would have seen the significant progress made during your visit in June. The 420 kilometre gas transmission pipeline is in the ground. It's been hydro tested and it's been de-watered.

Commissioning the pipeline is underway and we expect to commence gassing up the pipeline in the coming weeks. At the end of June including the work being done at Bechtel's module yard in Batangas Train 1 was 84% complete and Train 2 was 77% complete. All the Train 1 modules are set on their places and work continues with piping hook-up and cable pulling. All but two of the Train 2 modules have also left the module yard. That's 109 of the 111 modules required for the project. We expect to receive the final Train 2 modules on Curtis Island in September.

I am particularly pleased with the progress that's been made on the tanks and on the jetty, both of which are well clear of the critical path. The first LNG tank has been successfully hydro tested and final insulation work is now underway. Construction on both the second tank and the LNG jetty is progressing very well. Bechtel is responsible for plant commissioning and we now have 85 of our own Santos operational staff embedded into the Bechtel project team at the plant. We are well prepared to initiate commissioning work once gas is introduced into the plant in the fourth quarter of this year. It is also important for me to say that we are pleased that Bechtel's Curtis Island workforce have accepted the new labour agreement. All 3,500 staff are at work, it's business as usual on our site and we're on track to deliver first LNG next year.

Now let me take a look at our promising exploration program and I'm going to start in the Browse Basin on slide 22. Today I was delighted to be able to announce some big news to you on the significant gas-condensate discovery with the Lasseter 1 well. This is an exciting discovery that builds on the Crown success we had in 2012. What we've done we've intersected the gas-condensate section at 405 metres and the logging has indicated that we have 78 metres of net pay over the lower Vulcan and Plover intervals. We've taken hydrocarbon samples and these have confirmed a gas-condensate ratios of between 10 and 25 barrels per million standard cubic feet. We have done multiple pressure testing and lots of log evaluation and the indications are that the

gas would flow at a high rate. So this marks a very important progress in our exploration program in the Browse Basin and of course comes on the back of our Crown success in 2012.

I am now going to move onto the Cooper Basin unconventional program on slide 23. As I have said before our team's progress, our team's focus here is on cracking the code in the unconventional basin. This code cracking involves characterising the reservoir quality and then matching each reservoir with the most compatible completion type. The shale gas potential in the Cooper Basin has been enhanced with the successful execution of a 1,000 metre, 10 fracture stage horizontal well at Moomba-193. This well has extended our learning curve from the recently drilled 500 metre Roswell-2 horizontal well. Now in the 193 horizontal well, downhole micro-seismic has shown that the full length of the horizontal lateral section was stimulated and that fractures were contained within the target REM shale interval.

Following stimulation a 28-day flow test was commenced at Moomba-193 and the well flowed at an average of 1.5 million standard cubic feet per day. This is an improved rate over Roswell-2 and is a positive indication that flow rates can be increased through fracture design, placement and of course the increased horizontal length. In April Moomba-194 was successfully connected via a short tieback into the Santos existing production infrastructure. It was brought on line with a flow rate of 0.9 million standard cubic feet per day. This is the second successful unconventional well to be connected after Moomba-191 which is currently flowing at a very good 1.7 million standard cubic feet per day. This well has already produced 1.3 Bcf of gas. Drilling commenced in the Nappamerri Trough region with the spudding of Gaschnitz-4 and this is the first of three planned new wells in the Gaschnitz area. Now all this exciting work will continue as we evaluate the full potential of the unconventional resource base in the Cooper Basin.

So in conclusion everyone, I am exceptionally pleased with the Company's achievements and the progress made during the first half of 2014. The start-up of PNG LNG and the receipt of the first cash from the project have enabled the Company to increase our returns to shareholders. This increase in dividend delivers on what we said would happen at the time of GLNG FID. It's consistent with our commitment regarding capital management initiatives now that PNG LNG is fully operational.

We've also delivered a sound operational performance in the first half. You have seen the growth in the revenue, in EBITDAX, underlying profit and operating cash flow. GLNG is clearly on track to start up and deliver its first cargo next year. Lasseter is a significant exploration discovery. We have today outlined many proof points to support our positive outlook for the Company. Our strategy to transform the scale and the diversity of our business is now becoming a reality.

With that I'd like to hand over back to Vincent and take any questions which you have, thank you very much. Can I have the first questions?

Operator: Yes, ladies and gentlemen if you do wish to ask a question today please press *1 on your telephone and wait for your name to be announced. If you wish to cancel your request please press the £ or # key. Your first question today comes from the line of Dale Koenders from Citigroup. Dale, please go ahead.

Dale Koenders: (Citigroup, Analyst) Hi, David and Andrew. The first question just on the discovery at Lasseter. You've previously spoken about the potential of WA274P as more than 10 Tcf or resource accumulation. I am just wondering is that still the target longer term for the block and how far do you think you've got so far with Crown and Lasseter?

David Knox: Thank you very much Dale. I think this is very exciting to be able to announce this this morning. The 5,000-metre deep well we've found a very significant hydrocarbon column. We've got 78 metres of net pay. The top sands in the Lower Vulcan are of extremely high quality. We know the well will flow and flow very well. So clearly this is a big step in evaluating this resource. We now have the Crown discovery, we have the Lasseter discovery and clearly in working with others in the area of Poseidon and the wells in that area Proteus et cetera this is now becoming a very, very hot place to hold exploration acreage. As you can see on the map we hold very significant, as Santos very significant exploration acreage right the way around both Crown and Lasseter. So I think if you look forward for the Company this is one of the big future options that's available to us.

But I had said there's nothing much more exciting than doing a well of this nature, this depth and this complexity and coming up with 400 metres of hydrocarbon it is very significant for us.

Dale Koenders: (Citigroup, Analyst) 400 metres gross though the net pay is 78 metres and net to gross is quite low. Where do you think you've got in terms of the gas resource between Crown and Lasseter? Do you think you've got enough for a standalone development or are you maybe looking at unitisation?

David Knox: I think ultimately the gas resource is very significant. I think at the end of the day however probably we'll be working with others to develop this total resource. Obviously there are a number of fields around about particularly Poseidon and Ichthys further to the east. So we've got plenty of good partners to work with. We also have good partners in our venture in Chevron and Inpex so I think we're very well set up here to combine this resource with others around us to have a really significant future development. I'm hesitating in saying the exact size for the

resource. Clearly the 10 Tcf number has been supported by this well but we have to continue to evaluate that. But this is a very, very significant discovery for us and goes on the back of what we've found at Crown.

Dale Koenders: (Citigroup, Analyst) What's the expected forward work program? Are you still planning to drill I think is it Grande?

David Knox: We haven't committed to a forward work program. After you've made a discovery of this nature obviously you're going to spend a bit of time updating the seismic. Making sure you fully understand all of the reservoir models and then deciding what the best well to drill is. What is the next best well to drill, so we're now going to do that. So we'll decide once we've really had a good look and evaluated these results. These are very good results these are the type of results that really shift thinking and shift understanding of the whole area. It's the best development of Lower Vulcan sands that we've seen in this area. So we need to really understand the extent of these sands.

Dale Koenders: (Citigroup, Analyst) Okay and then on the Hides produced water disposal well knowing the results are done, are you able to provide any commentary as to how much upside there might be or how much more gas column you've found? My understanding is that inferring the gas water contact is just a process of measuring pressure and gas gradients and water gradients, just a very quick calculation?

David Knox: Yes we don't have all the data in from that well yet as we are today. So I can't give you any detailed comment on it. But we do believe that the Hides' field is likely to get bigger at the end of the day yes.

Dale Koenders: (Citigroup, Analyst) Is the process getting an update is that weeks away or maybe is it end of the year?

David Knox: Well I think we do - I am not going to speculate on how long it will take but it will certainly be done in the fullness of time and it'll be done to the highest amount of rigour and quality. There's quite a lot of science involved in this. What Exxon will be doing as operator is incorporating those results in the Hides' model. But overall I think we believe that the Hides' field is getting bigger not - certainly bigger than it currently is. So we see an upside here not anything else.

Dale Koenders: (Citigroup, Analyst) Okay, thanks, guys that's great.

Operator: Your next question today comes from the line of Adrian Wood from Macquarie. Adrian, please go ahead.

Adrian Wood: (Macquarie Group, Analyst) Yes, David, just a couple of questions. First of all on the dividend, obviously that jump has come a little bit earlier than I think perhaps we were expecting. Just wondering how we should think about the next jump in the dividend when GLNG starts up. Obviously you talk about a greater than doubling in operating cash flow from 2013 to 2016. Would it be reasonable to think of a greater than doubling in the dividend from 15 to something over 30 cents or is that too aggressive, or not aggressive enough? Can you just talk through the thoughts there? I appreciate it's ultimately a Board decision.

David Knox: Yes it is, Adrian. Let me answer that question though and I'm going to bring Andrew in here and then allow you to do a second question. Because this is a very important issue. We are very clear that Santos intends to maintain or increase each dividend as earnings and cash flow increase. We are also very clear that the next time we'll really think about this as a Board, all other things being equal, is at the time of GLNG start-up. So that is the Board's position that is where we are now. So, Adrian, we are very pleased to announce it today. It's done because we had a good start up of PNG we are getting the cash into the firm so we are able to do that today and I'm very pleased to be able to do so. I'll ask Andrew to add any further colour he'd like.

Andrew Seaton: Yes, Adrian, I think this really is consistent with our intentions when we cut the dividend back at the end of 2010. We were embarking on two projects one of which is now on line so we've taken the first step. I think as David said our intentions moving forward are quite clear. I suppose I can't quantify the increase in the dividend in the future other than to say we're going to find the right balance. We will remain a growth company. We will continue to reinvest in growth. We have been able to maintain our BBB+ credit rating right through this high capex phase and so we will remain committed to our strong investment grade credit rating. Obviously shareholder returns are also very much front of mind.

Adrian Wood: (Macquarie Group, Analyst) Okay, great thanks. Just a second question, I notice that you spent \$65 million of non-LNG capex in the GLNG capex budget for the first half of the year. I am just wondering if this rate of spend, so let's call it \$130 million a year will continue following the start-up of GLNG. If indeed it does can you confirm that it is included in the \$500 million of sustaining capex guidance that's out there? If it isn't going to continue after start up then can we explain why it's not included in the overall LNG development budget of US\$18.5 billion given that it feels like in that case it's probably going into the export market rather than the domestic market?

Andrew Seaton: Yes sure thanks, Adrian. I can confirm a couple of things, firstly the billion dollars of guidance that we've given for capex beyond the end of 2015 is everything. So that

includes the Santos share of the domestic stay in business appraisal, exploration and so forth. That's the whole lot. You will remember that our domestic contracts will tail off after 2016 but it's definitely all included. There's nothing more to see here.

Adrian Wood: (Macquarie Group, Analyst) Great thanks.

Operator: Your next question today comes from the line of Mark Samter from Credit Suisse, Mark, please go ahead.

Mark Samter: (Credit Suisse, Analyst) Yes morning guys, a couple of questions if I can? The first one is on the Cooper Basin. For round numbers you said you'd spent \$450 million in the first half. You told us at the December Investor Day you were going to spend \$650 million in the year leaving a residual of \$200 million. Now if we look at the release Beach made a couple of weeks ago and their guidance for capex from July '14 to June '15. I'll keep these numbers and we can squabble over rounding errors at the net Santos level, the implied net Santos level from the Beach guidance is about \$880 million over the next 12 months. If your \$650 million is right for FY14 that leaves \$200 million in the half that would leave \$675 million left in the first half '15. That doesn't look like a usual capex profile when the infrastructure build should be largely done to hit that target of increased production. Can you just talk us through what we're seeing there?

Andrew Seaton: Yes, Mark, this is a pivotal time for the Cooper Basin and we are spending over and above the normal amounts in the Cooper. We've described previously to the market a project called the Cooper Infrastructure Expansion project. What that is improving some satellite facilities and also installing another CO₂ train at Moomba, Train 8 at Moomba. So this will greatly increase the processing capacity through Moomba and also support the ramp up in production. I mean the important thing is we've already seen the inflexion in the Cooper. We've seen the gas production bottom out last year and start to increase. We've got more drilling rigs operating in the Cooper now than we have had for a very long time. The capex guidance that we've given still holds. I think there's a bit of a timing difference there between Beach's fiscal year and our calendar year. But there is this discrete one-off project which will be prosecuted through the remainder of this year and into next.

Mark Samter: (Credit Suisse, Analyst) So you think we can expect, just if we take Beach's guidance and your guidance and we assume they're both correct then, that's a huge step up in capex in the first half '15. It implies net to you \$850 million spent in the first half. Do you feel comfortable with both sets of numbers?

Andrew Seaton: Yes, Mark, I've not studied Beach's numbers, in fact I've not seen Beach's numbers at all. But what I can say is our numbers, we're going to run a six-rig program in the Cooper. We are going to maintain our Cooper oil spend at roughly the same levels as we have for the last couple of years. Our Cooper gas spend will be a little higher as we spend I think around \$400 million our share on the Cooper Infrastructure Expansion project and as we build the capacity. We're right in the middle of setting our budgets at the moment. We'll take those to the Board in October for our own internal approvals. But directionally that's where we're heading.

Mark Samter: (Credit Suisse, Analyst) Okay thank you. The next question I guess for David probably, with the EBAs on Curtis Island it's quite interesting to note between the first vote in May and the third vote there were 474 more workers employed. I mean Bechtel had said at the start of the year that the workforce had peaked and was going to start to tail. I am keen for what you think we should be reading into that. Was there issues with productivity and they brought more staff on? Was it anything else that we could be thinking about that, just your take on why the staff numbers are increasing at a time you should see them decreasing?

David Knox: Well I think it's very clear that certainly on our site Bechtel have made excellent progress. We are probably as well on the site today at peak manning levels. They will start of fall off fairly soon but currently we are probably at about peak levels. As I say that today the productivity on our site is very good. We've had some very good productivity results actually this week, everyone is fully at work. We've got all the Train 1 modules on the site. We've only got two Train 2 modules still in the module yard and it's going to come out in September.

So overall I have to say, Mark, however you look at this we've made extremely good progress on Curtis Island. If you look at the upstream the hubs are basically done, we're just in commissioning. The pipeline is done, we've got the wells in place and the field is performing better than we expected. So now it is a matter of finishing off on Curtis Island and I say we have a workforce now that is fully committed to doing that. The issues with the agreement are now all behind us. We now have a three-year agreement in place and I have every expectation that we will go forward and we'll be delivering as I have said for a long time in 2015 and Train 2 will be ready for start-up at the end of 2015. Nobody should have any doubt about that.

Mark Samter: (Credit Suisse, Analyst) Okay, I mean I am interested with that comment that - and you obviously are a JV partner in the one project that delivered LNG early. You look at the last seven LNG projects to start production, one was early PNG LNG, one was on time Peru that's probably a slightly different kettle of fish. The other five were materially late. I mean ex Skikda which was - it's a unique disaster the average of the other ones was 12 months late.

David Knox: Mark, I have no intention of being the average, none at all. PNG was not average, GLNG will not be average.

Mark Samter: (Credit Suisse, Analyst) Okay, brilliant thank you.

Operator: Your next question today comes from the line of Ben Wilson from JP Morgan. Ben, please go ahead.

Ben Wilson: (JP Morgan, Analyst) Good morning, David and Andrew, I just had one question about the Cooper Basin drilling program specifically I guess you'd describe it as a down-spacing or an infill program and what your expectations are around reserve development when you do report. Is the nature of the program to develop the roughly half of your 2P net reserves of I think it is 1.1 Tcf or so you've got there. Would you anticipate with this infill program that you'll be adding to your 2P reserve base?

David Knox: Probably the former we're basically downspacing, infilling and developing the remaining 2P reserves in our core fields. Of course that's not true for the unconventional program but for the conventional program that's what we are doing. As Andrew said we've increased the number of rigs, we've turned the corner. We're starting to build capacity in the field. I have been very pleased over the last effectively it's a couple of months with the performance of the Cooper Basin and the gas business. I have also been very pleased that our performance has been very good recently as well. Sometimes that's a bit of an unsung hero but our performance is really going very well right now.

So the Cooper Basin it isn't an easy place to operate. It's a challenging place to work but I think as I've said these last few months have gone very well for us and as Andrew said we're also increasing the infrastructure there. We're modernising some of it, we're adding some more compression. We are putting a new CO₂ train in. That project is also probably slightly below the radar screen and I am pleased to say that is going extremely well. It's bang on, on its schedule and it's probably coming in slightly under the budget. This is all very good for Santos very good for our shareholders and very good for the future of the basin.

Ben Wilson: (JP Morgan, Analyst) Okay very good and just a question on Kipper. Just hoping you can provide an update on your expected timing of that gas and when...

David Knox: 2016.

Ben Wilson: (JP Morgan, Analyst) 2016 and when you'd anticipate signing commercial agreements around your share of that gas, because it is a big chunk for the first couple of years.

David Knox: Well yes this perhaps fortuitous almost that this project was unfortunately delayed in that we're now obviously coming into a different gas market situation had it come on when it was first envisaged. In 2016 we know the gas market is going to be very strong, so we will obviously sign agreements as that date approaches. But we are in no massive rush to do so at this stage. The field will come on '16 as you say we've got a substantive volume of gas available to us at that stage. It's coming at a perfect time for us in 2016 when we believe the gas market is going to be very good in Victoria.

Ben Wilson: (JP Morgan, Analyst) Excellent, thanks very much guys.

Operator: Your next question today comes from the line of John Hirjee from Deutsche Bank. John, please go ahead.

John Hirjee: (Deutsche Bank, Analyst) Thank you, good morning everyone. A question on the dividend, if you don't mind. Could you give us some further colour or granularity on how you're thinking about the payout ratio that you would want to employ when the LNG projects are at plateau? On that will there be any seasonality at plateau? In other words what I am trying to decipher is whether the interim and the final dividend there'll be material differences or is there a plan to keep it equal as you have been doing at least in the last couple of years?

Andrew Seaton: Yes, thanks, John, good questions. To take the second one first, we are not looking at seasonality so the statement we have made this morning is that we'll look to maintain or increase each dividend. That's - so rather than each year of payments we'll look to maintain or increase each dividend. In terms of the payout ratio the important thing here is that the first half of 2014 the half just gone, we only had a couple of months of PNG LNG ramping up. So as I said the second half is going to be stronger. The payout ratio in the first half is about 78% of underlying profit. Now that is higher than we would envisage moving forward. We are more comfortable balancing our growth with our dividends. We are probably more comfortable at around a 40% to maybe 50% dividend payout ratio notionally through the cycle. But again reiterating that progressive nature of our dividend.

John Hirjee: (Deutsche Bank, Analyst) Thank you, Andrew. Another question if I may, and, David, you mentioned Roma and about the one well that's achieving over 1 TJ a day. How - what's the prognosis in terms of how many further additional wells do you expect to give you further confidence that as you mentioned that half a TJ per day planning assumption can be met?

David Knox: Well I think, you're quite right, John. The issue in Roma is we've now got the wells hooked up and they are de-watering. We have got 50 wells hooked up and they're de-watering.

This is a big step for us and what we've seen in that de-watering phase was we've seen these wells starting to come on and we've seen their - not their modelled type curves but they are real production performance. What we are seeing the wells are, the average wells are performing exactly as we expected but there are some wells that are performing quite a bit better than we expected. By that we mean that either they are producing a lot more water than perhaps we originally planned, which indicates they will produce a lot more gas. Or that in fact they are going to gas much earlier and effectively producing at higher gas rates.

So when you talk to the - all the geoscientists up in the project I think they will all to a person say that the Roma field is looking very encouraging. Now obviously we are not alone in this there's an offset field which Origin has developed Combabula which is very large and significant. They've had it on stream for a lot longer and we know that their average well is performing better than our modelled average of 0.5. So we believe that Roma has upside here. That is important for us because it is going to be a really important underpinning field for the project I know as we go to 2018 '19 and beyond. Fairview I think we all know is just truly a world-class almost extraordinary field. But Roma is looking very encouraging that's why I raised it today.

John Hirjee: (Deutsche Bank, Analyst) Good, thank you, David. Thanks, Andrew.

David Knox: John, thank you very much.

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

Nik Burns: (UBS, Analyst) Thank you, just a couple of questions from me. The first one just on the current state of play in the East Coast gas market. We're all expecting gas prices to go up quite significantly from here. But I guess we're in a situation now where in Queensland in particular we've got very low gas prices. I am just wondering if there's any way that you're able to take advantage of this low gas price environment maybe potentially buying some of this gas and putting it into storage in Moomba?

David Knox: Nik, we are aware right now of course that there is a lot of gas available at present. That will of course change as the first train with QCLNG starts up and then subsequently us and APLNG. There are opportunities for companies such as us who do have storage available to do what you are suggesting. Our key however is really to focus as we discussed just now with John Hirjee is to really get the Roma wells de-watered and make sure that is our focus and get all of our wells online and ready to fill the train and the second train as well. So if we do any purchasing of gas it will be very much on the margin. Our real focus is developing our own fields at this stage.

But we do have storage available, we have it both in the GLNG assets but we also have it of course in the Cooper Basin and we are one of the few companies that does.

Nik Burns: (UBS, Analyst) Right so you wouldn't be looking to maybe buy gas in Queensland and taking it back to Moomba for storage?

David Knox: Well I think the storage is going to be - just as a general theme, storage is going to be an important thing to have. It's important for a number of operational reasons but it's also important because it does allow you to time shift gas if you choose to do so. So we do have it available. I am just signalling that I think that will be very much on the margin for us. Our focus will be on getting our own fields up and running.

Nik Burns: (UBS, Analyst) Okay great and look the second question just on the Cooper Basin unconventional. So the offset well to Moomba-191 which obviously had very good flow rates I think it peaked at 3 million a day, Moomba-193H that was obviously a 1,000 metre lateral in the Murteree shale 10-stage frac and that only flowed at 1.5 million cubic feet of gas a day. I mean should we read into that that the future of unconventional in the Cooper is probably more around tight gas and maybe deep coals rather than chasing the actual shale gas potential?

David Knox: No I don't, I think it's far too early to read anything into it other than we are producing reasonable quantities of gas from shale. We are learning as we go forward. This is a journey we're on. Today I am as confident as I have ever been about the future of Cooper shale. But we recognise we also have major tight gas columns and that's why we're doing the three Gaschnitz wells because we have this huge column of gas in very tight rock. We also, which they call basin-centred gas. We also have as we know deep coals which are producing as you rightly say. So we have quite a few options and choices and we are evaluating all of those and then at some stage we'll probably decide on which is the front-runner.

But I think we are at early stages, this is the second horizontal well we have done. It was probably one of the largest fracs we've ever done but we are still very much learning. The fact that we've got gas coming from shales and we've got it improving rates is a good thing. In North America a typical horizontal well is actually 3,000 metres. So we've got a fair way to go we are at a thousand right now. We can go out further if we choose to do so. Typically they can even put 30 or 40 frac stages into these wells. So you can see how even if you just model these numbers forward you start to get quite significant flow rates even if you just take these numbers forward.

But I think, Nik, we are at early stage we are still learning. But if you ask me am I, do I believe that Cooper shale or the basin-centred gas or the deep coal will be a success in the next 10 to 15 years, I'd say probably yes. Yes I think there's a good chance of it.

Nik Burns: (UBS, Analyst) That's great.

David Knox: You just keep an eye on things and keep watching. Next year we are going to continue to develop this program. We are going to continue to evaluate, we are going to continue to drill wells and continue to get good results I think and we'll just build the model.

Nik Burns: (UBS, Analyst) Excellent, thanks David.

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

Stuart Baker: (Morgan Stanley, Analyst) Good morning gentlemen, just yet another question on the Cooper Basin. I appreciate some of these have been asked already but it's your second biggest spend in the half year \$414 million. Trying to get an answer and I'll take it a couple of ways which is can you split the investment in the infrastructure in that figure away from the stay-in-business spend for the gas development? That's the first question.

The second question is how should I think about how much money you're going to need to spend every year over the next several years in developing the 2P that's in the undeveloped bucket? It looks like about 550 PJs it's in a region where a TJ a day seems to grab a headline now and I assume you get about a PJ a well it looks like to me you need about another 500 odd wells to deliver that reserve. Then trying to think about what that's going to cost I can see a couple of billion dollars pretty easily spread over as I've said quite a few years.

Therefore I'm figuring a starting business gas development drilling cost of probably \$400 million per annum. Does that sound about reasonable?

Andrew Seaton: Stuart, a few questions there. The first one that the breakdown of the infrastructure versus the drilling I don't have those numbers at my fingertip but I am sure that Andrew Nairn will be able to do some work and get them to you during the day.

Secondly just on the flow rates, you implied 1 TJ a day is now the norm. We're still seeing flow rates from individual wells a lot higher than 1 TJ a day. Remember the Cooper economic is also driven by the liquids content. So we're still seeing good areas with high condensate gas ratios and strong LPG components as well. The number that you have put forward of about \$400 million that probably sounds about right depending on the number of rigs that we choose to run.

As I've said we're up to about six rigs now in the Cooper and that's good business for us. The incremental rates of return from operating those rigs are all strong. So yes I guess this is something that we will keep an eye on the gas market and the results that we're getting. But at the moment the Cooper as an asset has turned the corner and is performing well.

Stuart Baker: (Morgan Stanley, Analyst) Okay thanks, Andrew, appreciate a few moving parts to the question there but fair enough. Thank you.

Operator: Your next question today comes from the line of Scott Ashton from BBY. Scott, please go ahead.

Scott Ashton: (BBY Limited, Analyst) Good morning, gentlemen, just a very quick question. David or Andrew, just trying to understand the strategy in PPL269 in PNG. You've seen your joint venture partner pick up a 10% interest there. So are you guys seeing extensions of P'nyang into that 269 and is it effectively protection acreage for some gas expansion opportunities. Just trying to get an idea of what you are seeing there?

David Knox: Yes, thank you, Scott, and obviously there's a lot of excitement around what's happening in PNG right now. We ourselves know that we're going to be in PNG for 30, 40, 50 years. So what we have been doing strategically and quite quietly is picking up exploration acreage. We have picked up some good acreage in the Foreland and as I've said today we've had two reasonable well tests on those two wells that are operated by Talisman. The 269 acreage I haven't actually got a map in front of me as to exactly where it is. But we have been very interested in this Foreland's area. There is P'nyang as you rightly say also an interesting field which could potentially be brought into the project, into the main PNG project. So our strategy is to work in the Foreland's, get access to good quality exploration plays and then work with the PNG operator Exxon to basically grow the resources of the main project. Recognising that we are going to be in country for a long time and recognising it's a very good hydrocarbon province.

Scott Ashton: (BBY Limited, Analyst) Thanks, David and just tying that back to one of the earlier questions on payout ratios and divs. You obviously want to keep your powder dry to play a part in consolidating some of that acreage up there. So I mean would this be one of the more strategic acreage positions you've got?

David Knox: Well we've - it doesn't - what we're doing here doesn't affect any of the dividend conversation. We've got in at a reasonably inexpensive access cost.

Andrew Seaton: Correct.

David Knox: That's been our strategy is to get in reasonably early with the exploration drill bit over the last couple of years. We have also had Block S in Malaysia which I have announced today. We've had these two discoveries in the Foreland's. So you'll see us continuing to gain access to exploration plays where we believe there is real potential. Within a fairly tight region we are keeping ourselves confined to the Asian region and we believe there are some really good opportunities there. What we've done in Malaysia and what we've done in PNG are fine examples of that.

Andrew Seaton: Yes, Scott, maybe if I can also elaborate. We do have a number of significant growth opportunities that are coming through. Whether it's PNG LNG Train 3, whether it's the Browse region whether it's Darwin backfill, Darwin expansion. The Cooper continued growth and the shale that we've talked about and also projects in Asia. I think the key thing is our growing operating cash flow and our reducing investing cash flow at the moment. We've been able to maintain our credit rating. We're actually able to increase our dividend. I think the payout ratio guidance that I gave you it will enable us to trade off that continued growth with the shareholder returns.

Remember that we also at the moment have a 2.5% dividend reinvestment plan in place and so we do get about 45% of our dividend coming back in through that reinvestment plan.

Scott Ashton: (BBY Limited, Analyst) That's great I appreciate your time and patience on that, cheers.

David Knox: Thanks, Scott.

Operator: Once again if you do wish to ask a question today it's *1 on your telephone. Your next question comes from the line of Michael Doug from Citigroup. Michael, please go ahead.

Michael Doug: (Citigroup, Analyst) Hi, there. I just wondered a bit more colour on the flexibility in your gas sales contracts, given kind of the expectation in the market of on a lot of gas supply in the short term. To what extent will customer nominations impact your production in the coming year? And I guess a follow-on from that is, how much of that gas have you already banked from those contracts do you need to supply going forward?

Andrew Seaton: Yes, thanks, Michael. I mean the gas market is in transition right now, as an earlier question pointed to. The spot market price is quite low in Queensland but remember that very little gas trades through the spot market. Our contracts are really long-term contracts, some of them have a degree of flex in them and so perhaps they will be nominated down. But that's factored into our thinking in the guidance that we've given on production. But as David said, once

the first LNG project QCLNG starts up then that opens up a whole new market for gas molecules in Eastern Australia. And our strong expectation is that, you will see that the market supply-demand coming back into balance at that time.

Michael Doug: (Citigroup, Analyst) Okay. Thanks for that.

David Knox: Ultimately, strategically here the big thing is we are going from a \$4 gas world in Eastern Australia up to \$6 to \$9 gas world as we said for a number of years and that's happening and that's the big strategic thing for us. It's repriced all our resources in Eastern Australia.

Michael Doug: (Citigroup, Analyst) Yes, and your production forecast for next year includes the conservative assessment of how customers will nominate their volumes?

David Knox: It will. It will include an assessment, yes.

Andrew Seaton: Yes we haven't given guidance for next year. We've given guidance for this year, and that's been taken into account. We'll give guidance for next year at our Investor Day.

Michael Doug: (Citigroup, Analyst) Great. Thanks, guys.

David Knox: Can I have one last question and then we need to wrap.

Operator: As a final reminder if you do wish to ask a question it's *1 on your telephone.

David Knox: If there are no more questions then I - are there any more questions just...

Operator: No, there are no questions on - no further questions.

David Knox: Well thanks Vince. I'd just like to thank everyone for joining us this morning. Thank you very much and I'll look forward to seeing you over the next 10 days. Thank you.

Operator: Ladies and gentlemen, that does conclude our conference for today, thank you all for your participation you may now disconnect.

End of Transcript