Company: Santos Limited
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Start of Transcript

Operator: Ladies and gentlemen, thank you for standing by and welcome to the 2015 half-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, Friday 21 August 2015.

I would now like to hand the conference over to your speaker today, CEO Mr David Knox. Thank you, please go ahead.

David Knox: Thank you, Kevin, and good morning. Welcome to Santos' 2015 half-year results conference call. Joining me on the line today is CFO Andrew Seaton. Before we go to the results review, I wanted to make a few brief remarks about the Company's announcement today about the commencement of a CEO transition process and, of course, a very important strategic review.

As Peter Coates has said this morning, the Board and I have agreed that with GLNG all but ready to commence production on time and within the $18.5 billion budget, it's an appropriate opportunity to commence the process of recruiting a new CEO for Santos. I have had the privilege of leading this Company now for seven years. I've relished every minute of working with the truly fantastic people who make up the Santos team. In particular, I'd like to acknowledge the tremendous support from my stable leadership team over the last seven years.

I would also like to thank the whole Santos team who delivered a great operating and safety result during such a ground-breaking time for the Company. I truly hope that my successor is ultimately chosen from the team because there's no shortage of talent on the bench, but I agree the Board needs to undertake a global search that will consider all potential candidates in making their final selection, to ensure that we have the right person for the job.

Of course, we don't know how long that recruitment process will take. But we do know that we have a mountain of work to carry on in the meantime. I want to reassure shareholders that I will remain absolutely focused on delivering the best possible operation performance Santos can deliver.

Now, with regard to the strategic review I want to say that I continue to believe that Santos can weather the current downturn in global oil prices and that the quality of our projects and strategy will stand the test of time. However, I also acknowledge that the Board must do all it can to address the continuing impact the current oil price environment is having on our share price. An all-encompassing review is both therefore appropriate in terms of timing and also scope.

As the Chairman has outlined, the thorough strategic review will look at all options to maximise shareholder

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value. Santos has built and secured some high-quality assets and resource positions. The Company needs to protect that value while also achieving far better market recognition than shareholders are seeing today. The review will include talking with the parties who have approached us to date with interest in various assets and other strategic initiatives, and with this announcement there may well be new expressions of interest received. No options will be ruled out from consideration. But neither is any particular option a preferred course at this time.

With the CEO transition process getting underway, it is appropriate that the review is conducted by the Company's chairman, Peter Coates. Assisted by members of the senior management team as Peter requires.

So now, I'm going to turn to the half-year results. I'm referring to the presentation that's been released this morning and is available on our website. On the cover of the deck, you can see a picture of the GLNG plant. Now this shot was taken about a month ago and you can see that we're on the home straight. I was pleased to announce this week that we now have gas into the front end of Train 1 and all six refrigerant compressors have been run and tested. We're now well into the final commissioning process to produce first LNG around the end of September.

Now I'm turning to slide 3. I want to report on the important highlights from the first half and talk about how we will further strengthen the Company's operations as we progress through the second half of 2015. First, our results today underscore the continuing improvement in the Company's operational performance. Strengthening our operations has been essential given the impact of market forces the whole industry continues to face.

We cannot control the oil price but there are many things that we can control. I believe we have responded swiftly and continue to act appropriately. Our operating performance demonstrates that we're buttressing the business to weather the likely oil price environment over the coming 12 to 18 months. Second, on the issue of market outlook for oil and LNG, we will outline how the Company has positioned itself. Finally, I'm pleased to provide you with what will be our final update on the progress of GLNG before it goes into production from Train 1.

So to my first point on improved operating efficiency, and I'm on slide 4. The Company has made good progress in repositioning for a period of low oil prices. Central to our work is a significantly revised capital expenditure program. CapEx has been focused on the assets that will deliver the greatest value to the Company in the near term. As a result, CapEx has been cut by 55% in the first half. Basically we are cutting all CapEx which does not deliver good returns in low oil prices. Furthermore, we are reducing execution costs for the same scope of work. We continue to drive efficiency and innovation through well pad design, for example, and are driving a low-cost culture by removing all discretionary spend. For example, our travel budget this year is down by 65%.

As a result of these initiatives, Santos is producing more for less. While production is up 13%, our focus on cutting operating cost during the first half has unit production cost tracking below the guidance at $13.70 per barrel. That's 11% lower than the previous half. But we're not done yet. You should expect to see us make further progress on cost reduction and efficiencies during the second half. In line with this approach, I

recently announced Brett Woods as Vice President for eastern Australia. Brett is tasked with the simplification of the EA business and on driving costs out. This will result in more gas and less cost while maintaining safe operations. The Company's efforts will see it free cash flow positive, that is after interest, tax and all CapEx, in 2016 and beyond at current oil prices and exchange rates.

So let me now turn to the second point on my introductory remarks on slide 5. Our view of the oil market over the immediate and then the longer term. Over the first half of this year, Santos averaged realised oil price was US$60 per barrel - that's US. 47% lower than the previous first half of US$115 per barrel. More recently the oil price has traded sub-US$50, as we all know. The current market remains oversupplied on the back of OPEC continuing to defend market share and production in the United States proving resilient. Production appears to have peaked in the United States as field decline kicks in and well CapEx starts to fall. However, sentiment remains negative, reflecting concerns about lower economic growth in emerging markets, expectations of higher oil exports from Iran and continuing expected growth in global inventories.

Despite these negative drivers of sentiment, there are fundamental market drivers at play. Demand growth more recently has surprised on the upside as customers and consumers respond to lower prices. As the chart on slide 5 shows, the IEA has recently revised their 2015 oil demand growth forecast by 0.2 million barrels per day to 1.6 million barrels per day. That's the fastest pace in five years. Not only has demand growth in the first half of this year been significantly stronger than in 2014, but it's also forecast to remain stronger through the second half of 2015 and all of 2016. All companies have responded to the current conditions by cutting CapEx. When you cut CapEx, oil fields decline. The physics tells you that production will fall and in the long term the cycle will resume. It's just a matter of how long this particular cycle will take to play out.

I'm going to save my update on GLNG and other operations until Andrew has delivered his commentary on our financials. Before I hand over to Andrew, I also want to comment on our continuing strong safety performance. I'm now turning to slide 6.

It is encouraging to see that during a period of uncertainty and external pressures, we have delivered an exceptional safety performance. Our lost time injury frequency rate is zero. That's the best in Santos' history. This is an outstanding achievement given that we remain at high activity. I'm also pleased to say that our safety critical maintenance is also tracking above our target of 98% year to date.

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

Andrew Seaton: Thanks, David, and good morning. Turning to slide 8, you can see the financial summary for the half. Increased sales volumes were offset by the impact of oil prices being 47% lower, driving a 15% reduction in sales revenue. An important aspect of our performance was the production cost savings achieved across the business. I'll talk to this further in a subsequent slide.

EBITDAX declined by 5%, underscoring the sound operational result given the challenges faced in the current oil price environment. Net profit was impacted by a number of items, as shown in the summary table. First, exploration in 2015 is weighted for the first half. The higher exploration expense of $194 million reflects

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the campaigns in PNG and also in Malaysia. The reported exploration expense has reduced slightly from our second quarter report. This is primarily due to final well costs being lower than our prior accruals. In the second half, we'd expect an exploration and evaluation expense of approximately $100 million. The second aspect is the increased depreciation expense. This is driven by PNG LNG moving to full production as well as the commissioning of major upstream GLNG assets.

Thirdly, higher finance expenses because of the ongoing draw down of debt facilities, lower capitalisation of interest as GLNG facilities are handed over to operations and also the depreciation of the Australian dollar. Lastly, the high effective tax rate of 63% which is primarily due to the PNG and Malaysian exploration expense being non-deductable in Australia.

Moving to slide 9. The 13% lift in production is the higher recorded first-half production in eight years. This is a solid result, especially with the extended shutdown of the Mutineer Exeter FPSO which was offline for most of the first half for repairs and maintenance. The strong performance from our LNG portfolio is evident in the purple section of the bar graph. So up 131% on last year. This LNG growth is going to continue as GLNG ramps up over the next few years. Our full-year guidance of 57 million to 64 million barrels of oil equivalent is unchanged.

On slide 10, you can see crude oil sales revenue was down 51%, primarily because of the lower oil prices. But this negative was offset by other elements of our quite diverse portfolio. The domestic business delivered robust sales gas and ethane revenue, and this reflects the strength of the Company's gas operations and infrastructure position in eastern Australia, Western Australia and also Indonesia. LNG sales revenue was up 157% in the half, driven by the strong operating performance from PNG LNG and also Darwin LNG.

Moving now to production costs on slide 11. The overall increase has mainly been driven by new assets coming online. Excluding PNG LNG, base business production costs are down $36 million compared to the first half of 2014. So on a dollar per barrel basis, the 11% reduction for the first half has us tracking below full-year guidance at $13.70 a barrel. Some of the main focus areas for reducing production costs stem from headcount, supply chain management, camp and travel rationalisation and other process improvement initiatives. Savings momentum is building with second quarter cost out greater than the first quarter as the impact of downsizing and contract negotiations take hold. For example, in the Cooper Basin business which is our largest operated asset, absolute costs were down by 8% in the first quarter and 19% in the second quarter.

Moving to the next slide, I want to give you a little more detail around how we are resetting our cost base. Staff headcount is down by 565 positions. This alone has delivered a gross labour saving of $100 million per annum. Contractor headcount is down almost double the staff headcount reduction. We're on track to achieve $180 million gross supply chain savings in 2015. Some examples of the rate savings are given on the right hand side of this slide. We've already renegotiated more than 200 contracts, delivering meaningful savings such as 16% savings in on shore drilling rig rentals, 37% in rig move rates, between 33% and 67% savings on well evaluation activities, including testing and logging, and 14% to 31% savings across a range of maintenance reliability and operating contracts.

Turning now to operating cash flow on slide 13. The Company achieved operating cash flow of more than $0.5 billion for the six months despite the dramatically reduced oil price environment. Becoming free cash flow positive has been and is the absolute focus for management. Notwithstanding continued low oil prices, we expect to be free cash flow positive in 2016 at a prevailing oil price of between US$45 and US$50 a barrel, assuming FX rates of between $0.70 and $0.75.

On the next slide, slide 14, you can see the breakdown of capital expenditure of $845 million in the first half. With the major LNG CapEx period ending, we're focused on a low-cost, sustainable strategy. The $200 million exploration spend included closing out the five well offshore Malaysia campaign which we committed to before the material drop in oil prices last November. This spend of course delivered the significant Bestari oil discovery. Our full-year CapEx guidance of $2 billion excluding capitalised interest is maintained. In 2016, we expect CapEx to further reduce to around $1.2 billion across the portfolio.

Looking at the balance sheet and funding on slide 15. The waterfall chart shows the reconciliation of current debt of $8.8 billion against year-end 2014 debt of $7.5 billion. The AU dollar/US dollar foreign exchange rate depreciated by $0.05 over the six months to June this year. This alone has resulted in an increase of almost $500 million in net debt in Australian dollar terms. While the weaker exchange rate has increased the headline debt number, you also have to remember that it's increased the Australian dollar value of our US dollar denominated assets and also the associated cash flows. Investing activities in the cash flow statement are higher than the CapEx figure on the previous slide due to net acquisition costs, capitalised interest paid and also working capital movements.

Turning to our debt maturity profile on slide 16. During the half, we successfully refinanced $800 million with very strong support from our existing banks and also a number of new banks. Our average pre-tax borrowing costs of just over 4% before tax is significantly lower than the prior year. Whilst we maintain a strong liquidity position and have minimal near-term maturities, we do acknowledge that our high level of debt at a time of weak oil prices has resulted in pressure on the Company's share price. That's why the Board has today announced its strategic review, to be led by Peter Coates as Executive Chairman, to look at all options for the Company moving forward.

Turning to slide 17 and dividends. The Board has set the 2015 interim dividend at $0.15 per share fully franked. The dividend reinvestment plan will be in effect for the interim dividend and will be fully underwritten. DRP shares will be issued at a 2.5% discount.

In summary, I'd characterise the half year as sound operationally but clearly challenging given the low oil prices. Cost savings are being relentlessly pursued across the business and material savings are being achieved. CapEx has been driven down substantially. GLNG, as David will touch on in a minute, is progressing very well towards start up around the end of September within budget. With $2.2 billion in cash and undrawn debt facilities, we have adequate balance sheet liquidity.

With that, I'll hand back to David.

David Knox: Thank you, Andrew. As Andrew's made clear, we as a company are absolutely focused on driving productivity and managing costs right across the business.

Moving now to slide 19. With both Darwin LNG and Papua New Guinea LNG are producing ahead of expectations. Significant production and volume growth was obviously recorded in the first half of the year. The increase in LNG revenues underscores the impact Santos' LNG strategy is already having on the Company. With the imminent start-up of GLNG, we stand to increasingly benefit from the long-term revenue streams underpinned by firm 20-year offtake agreements. The Bayu Undan Phase 3 drilling program was delivered in the first quarter. Resulting in incremental gas and liquids recovery and higher offshore well capacity. Further, significant upside result at the Barossa-3 well which was drilled late last year has strengthened our resource position. It also - it ensures that the Barossa field, of which we own 25%, is well positioned to provide long-term supply to the Darwin LNG plant.

Papua New Guinea LNG is continuing to perform above our expectations, producing well above its nameplate capacity. 118 cargos have now been shipped and we remain confident that further de-bottlenecking and expansion opportunities remain on the table. This has been a very good investment for Santos and an important addition to our LNG portfolio.

I'm now turning to GLNG on slide 20. First, let's look at the upstream where the Fairview field continues to exceed expectations. Field capacity is on track to reach 600 terajoules a day by the end of this year. The average well capacity has increased from 1.6 terajoules a day in March to almost 2 terajoules a day in July. At Roma, 120 wells that were brought online late last year continue to ramp up in line with our expectations. We're continuing our connection program in the second half and will have 200 Roma wells online and dewatering by the end of this year. We remain confident that the future production capacity of Roma field will comfortably achieve our planning assumptions.
We have now sanctioned Roma West 2B. This will see another 159 wells connected through 2016 and into early 2017. Roma West 2B will add another 140 terajoules a day of hub compression capacity. This will take the total existing and sanctioned gross upstream compression capacity for the project from 725 terajoules a day up to 865 terajoules a day. Now we've also been testing our Fairview facilities, hubs 4 and 5 under full load and they have performed very well. We therefore expect rates to increase by circa 5% once these systems are fully operational. In summary, the upstream is in very good shape and we are ready to go.

Now I'd like to take a moment to briefly talk about cost efficiencies that have been driven in GLNG. The GLNG upstream is a good example of the Company's work to increase efficiency and reduce costs. Here we've developed an organisation that in terms of its structure, skill set and culture is driving down unit cost of production month on month. The transition from an EPC model to self-management was critical. It has allowed us to apply learnings from both within the business and from across the industry to deliver savings in both time and also budget. Across drilling, completions, flow lines, connections, we've focused on standardising the designs. Whether it is well design or surface facility design, this approach has contributed to our driving drilling and completion costs down by a remarkable 69% of what they were in 2012. Our construction costs are down by around 50% on a like-for-like basis of what we had estimated at FID in 2011.

This result's not by accident. It's an outcome of the capability we've now built within the project. It puts us in a great position to continue to deliver ongoing efficiencies as we bring the whole GLNG system online over the coming weeks.

I'm now moving to slide 22 on Curtis Island. The delivery of feed gas into the front end of Train 1 was a key milestone. Since March when first gas was introduced to the plant, all Train 1 utilities have been commissioned and are now fully operational. The wet and dry flares are commissioned and operational, the jetty is complete and the LNG tanks are ready to receive their first LNG. Loading of the propane and ethylene refrigerant in the storage is almost complete. The six LNG Train 1 refrigeration compressors have now been run successfully and tested on full load. We will shortly feed gas into the amine unit and then the molecular sieves and then commence the drying of the whole of the LNG plant. We have 110 Santos GLNG employees embedded in the integrated Bechtel GLNG commissioning and start-up team. Train 2 remains on schedule and will be ready for start-up by the end of 2015. GLNG is on time and is on budget.

I'm now going to move to exploration and I'm on slide 23. Our exploration program in the first half of 2015 has seen the Company drill six important exploration wells. Hides Deep in Papua New Guinea, Gaschnitz 2 in the Cooper Basin and four wells offshore Malaysia. The program produced the significant oil discovery of Bestari 1, offshore Malaysia and a successful gas discovery at Gaschnitz 2. Other wells as part of this program did not intersect commercial hydrocarbons and were expensed. We're particularly excited about Bestari 1 which encountered 67 metres of net oil pay in multiple sand packages. The oil-bearing sands are of high quality with good porosities and permeability. The JV has demonstrated the importance of this find through advanced planning to drill an appraisal well later this year.

Given the lower oil price environment, our exploration program is being reset with a focus on prospects which are close to the existing infrastructure. We're deferring our frontier and emerging play investments for the future.

In conclusion, the external environment is driving change to our industry, to our suppliers and to Santos. We are increasing production across the business and we're doing so in a way that delivers ongoing cost savings. Our LNG portfolio is performing well. GLNG will shortly begin to make a positive contribution to our bottom line. Everyone is focused on driving efficiencies in everything we do and this is evident through these results. Our revised capital program has been designed to navigate the short term while delivering the production we need to maintain sustainable growth.

With that, I'm going to pass back to Kevin, our operator, for questions. Thank you.

Operator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, you can always press the pound or hash key. Once again ladies and gentlemen, to ask a question it is star one on your telephone keypad. Thank you.

We do have our first question here from Mr John Hirjee from Deutsche Bank. Please ask your question, John.

John Hirjee: (Deutsche Bank, Analyst) Good morning everyone. Look, I just wanted to ask in relationship to obviously the strategic review - and appreciate that there may not be a lot of information - but just to get some further definition around the approaches you've had. Could you give us a little bit more elaboration on those and what they have involved, if you can?

Andrew Seaton: Thank you, John. Obviously the Board is very determined to address the impact of the falling oil prices and the continued pressure on the share price. Therefore I think it's entirely appropriate that the Chairman has announced that he himself is going to lead a strategic review on behalf of the Board. John, this is going to look at all the options. There are no preferred options at this stage. It's obviously in response to approaches we have had and I think there will be other approaches as well. That's an ongoing process and you'll understand I can't say too much about that. This is being led by Peter, he's taking on an executive role to do this, he's going to do it himself. I think you can be absolutely assured that he is going to turn over every stone and drive this with real pace and vigour over the coming months.

John Hirjee: (Deutsche Bank, Analyst) All right, thank you David. I guess then, in terms of your balance sheet where, as you pointed out, the market is concerned about the leverage position, Andrew, in terms of addressing the debt, what other measures are you looking at in terms of trying to address the debt burden in this sort of bearish oil market view?

Andrew Seaton: John, clearly there's a couple of different forces at work here. The oil price is putting a lot of pressure on our share price given our balance sheet position. We are very leveraged to the oil price because we're carrying a peak net debt given our recent heavy CapEx phase for building our LNG portfolio. I guess the points are, we are investment grade credit rated, we have put in place a strong liquidity position so that's not an issue for us. Operationally, the business is doing very well, we've talked to our CapEx cuts, we've talked to our OpEx cuts, we're reducing headcount. So really what we've been focused on is driving the business hard in the current environment. That's what we continue to be focused on. Obviously the strategic review is what's going to address the share price performance and it's going to look at all options for increasing shareholder value at this time.

John Hirjee: (Deutsche Bank, Analyst) Okay. In terms of GLNG then, broadly, the timetable for bringing on Train 2, if I recall, there is a longer period of time to ramp that up. How's that scope looking? In terms of that, is it still likely to take that amount of time? Or do you think that there's possibility of bringing that accelerated ramp up, if you like?

David Knox: Yes, it's a good question, John. So as I said, we're going to - right from the get go in 2011, we said that Train 2 will be ready for start-up at the end of 2015 and we're going to achieve that. So that's the first piece of news. The train itself is in a very good shape if you walk through it, as I did last week. It's well advanced and it, frankly speaking, has been helped by the learnings we've had from Train 1. So it's very well advanced and I'm very confident it's going to be done on time and also perform very well.

I'm not going to change the ramp-up guidance today. We've always said that it'll take two to three years to fully ramp up that second train. I'm not going to adjust that today. But what I am prepared to say is that everyone knows the Fairview field is performing exceptionally well. That absolutely continues. But what we're getting increasingly confident about is the performance of Roma. That's why we continue to invest with

a Roma 2B project, as we call it, and others in the Roma field. It's continuing to perform very well. So while I'm not going to change the guidance, I do have real confidence and that's building, that we will be able to exceed that guidance and do better than that over the next two to three years as we ramp up that second train.

John Hirjee: (Deutsche Bank, Analyst) All right, thank you David and Andrew, thanks very much. All the best.

David Knox: Pleasure John, thank you.

Andrew Seaton: Thanks John.

Operator: Thank you. Your next question comes from Mr Dale Koenders from Citigroup. Please ask your question, Dale.

Dale Koenders: (Citigroup, Analyst) Hi guys, I was just wondering in terms of the operating cost savings that you've delivered, it seems to be tracking ahead of schedule and definitely ahead of guidance. Just wondering why the full-year cost guidance hasn't been, perhaps, reduced down?

David Knox: Yes, I'll let Andrew answer that but, Dale, the key thing here is we started this drive last November and we've been going at it hard right from the get go. That's why you're seeing a good performance in the first half. I'll let Andrew answer the more financial question but the tone of this is very much that we've been driving this extremely hard and we're going to continue to drive this. We've got a good head start on it.

Andrew Seaton: Than Dale, specifically to the guidance, so clearly the full-year guidance is above our current run rate for the first six months. The reason for that is that GLNG will start up in the second half. So what you've got then is the full loading of GLNG costs coming into the P&L but a ramp up in production. So on a dollar per barrel basis, obviously GLNG will be in the immediate term higher cost than the rest of our portfolio, as it ramps up to full-sustained production.

Dale Koenders: (Citigroup, Analyst) Okay. Then secondly, you've obviously run through a lot of examples of where you're making some fantastic cost savings on contractors. Also the cost of doing works for Roma wells, I'm gathering down 10% to 15% year on year. Is the CapEx guidance and operating guidance set for GLNG one, two years ago still the right numbers to be using then? Or is there downside to those numbers?

David Knox: No, our guidance right now is - first of all, we'll complete the project for $18.5 billion. So that's the first thing. By that I mean complete to the end of the second train, actually producing its first LNG. In addition, we've said that our sustaining capital will average $900 million - this is gross - for the first five years. Now we did bring that down by 10% in April this year. I'm holding the $900 million guidance right now. That's an average over that five-year period. Now clearly what you've seen here is the teams are frankly really performing, they're really knocking costs out and we've shown you some examples, there are many more we could have shown you. But I'm not going to change that guidance at this time. But obviously clearly they're working to absolutely minimise the sustaining CapEx, maximise the gas flow from it.

The other thing I think people should be aware of, in GLNG we've designed it in such a way that it can be operated at low cost. So there's fibre optic to all the wells, we have 100 wells per operator, everything's controlled centrally from Brisbane, the plant's controlled on the island, obviously. But we really have designed the system to be a low-cost operating system. So we're very, very focused on this issue going forward.

Dale Koenders: (Citigroup, Analyst) I guess the disconnect that we see - and it's not only GLNG but also APLNG - is discussions of cost-out savings that were set, perhaps, 12 months ago and before we really saw cost out in industry, which should have been on top of those cost savings for becoming more efficient and drilling wells quicker and pad drilling et cetera. I would have thought that meant that there's further opportunity to reduce cost. However, I guess if there isn't further opportunity, it almost indicates there's been overruns in other areas. I'm just trying to understand that disconnect.

David Knox: Well certainly not in our case. We've - as we've shown here, we've had massive efficiency gains. Look, I don't want to give the impression that this is just because we're driving costs out of our contractors or whatever either. What we're doing is we're redesigning some of our equipment, we're being smarter in the way we're doing it, we're being innovative in the way it's been done. So it's not just - there's fundamental changes in our cost base are happening here, through design and also through execution as we go forward. So I'm not going to promise that I'm going to lower the $900 million, that would be incorrect of me to do. But clearly that's what we're driving on going forward and I've given you some pointers to suggest that might be possible in the future.

Dale Koenders: (Citigroup, Analyst) Okay, thank you.

David Knox: Dale, thank you very much.

Operator: Thank you. Your next question comes from Kirit Hira from Macquarie. Please ask your question, Kirit.

Kirit Hira: (Macquarie, Analyst) Morning David and Andrew. Listen, just a couple of questions regarding, again, CapEx. Probably more so the business level CapEx, $1.2 billion next year. Given, I guess, the cost reductions that you've pointed towards in terms of contractor savings, just trying to understand the split there between maintenance and growth. You did refer to the fact that you're not investing in, I guess, growth that doesn't make sense based on current oil prices. Just trying to understand what the split is of, I guess, that investment that does make sense at oil prices today?

David Knox: Yes, so clearly as we bring our GLNG system trains 1 and 2, we are going to see growth next year. What we're doing in that CapEx guidance is making sure that that - the CapEx we're spending next year which Andrew's indicated will be around $1.2 billion is sufficient to deliver all of this system and sufficient to execute our existing project slate. It's also sufficient to do things like continue to progress the AAL project in Indonesia. It does have some money included in there to allow us to continue to do some exploration, albeit I've said that we're going to focus on exploration that's much closer to infrastructure rather than drilling the big, expensive deep wells. That's for next year.

So we have - what we've done is we've sought to balance making sure that we deliver on all our promises, we do deliver the growth that we've promised through GLNG while preserving capital and also preserving our businesses, preserving our leases, preserving all our operational positions. But we have pulled back from some of the perhaps more expensive and perhaps more risks capital ventures, particularly with, say, exploration deep water wells which are frankly just going to be very difficult for us next year, they're just not going to be done.

Kirit Hira: (Macquarie, Analyst) Okay, great, thanks David. Also, I'd a question on the balance sheet. Just looking at the liquidity position going forward, what's the current plans regarding the hybrid in terms of the option to redeem it in 2017? Will that just be refinanced with the existing undrawn facilities that fall due at a later time? Or given the current environment, will you look to just continue to keep that in place? I presume you're probably looking to redeem it.

Andrew Seaton: Kirit, yes the expectation is that we would redeem that in 2017.

Kirit Hira: (Macquarie, Analyst) Okay.

Andrew Seaton: Then refinance it in the appropriate way at the time.

Kirit Hira: (Macquarie, Analyst) Okay, that's all from me guys, thanks for that.

David Knox: Thanks, Kirit.

Operator: Thank you. Your next question comes from Mr Mark Samter from Credit Suisse. Please ask your question, Mark.

Mark Samter: (Credit Suisse, Analyst) Yes, morning guys. I guess the strategic review's going to answer a lot of the questions we have so I'll try and avoid playing the pantomime villain on the call and just ask you a couple of really more operational questions, if I can. With GLNG, obviously we know there's the ramp profile on Train 2. I guess I'm keen to understand if there is a contractual ramp profile on Train 1? If you can give us some guidance? It's going to be pretty logical if you're a buyer, particularly given weak end market demand but also given the outlook for spot prices that you would only lift your contractual obligations. Can you give us any indication if the ramp is a put option by GLNG and just a bit more around Train 1 as well?

David Knox: Yes, so just on - stepping back, on our Train 2 ramp profile, our contracts cater for a ramp over two to three years, that's the first point. On our Train 1 contracting profile, we will see - obviously once the Train's operating on plateau, we will run that train on plateau and we'll deliver the cargos into our contracts that that train delivers. The way we do that is that these cargos are put in the annual delivery program and once they're in the annual delivery program then they're cargos which the buyers pick up off the end of the jetty. The buyers have destination flexibility for these cargos, it's one of the unique points about our contracts. But they're delivered off the end of the jetty and basically we put the cargos into the annual deliver program. Once that's agreed they become firm and the buyers pick them up.

So we're going to run Train 1 basically flat out from as soon as we get it up and running and are comfortable with the system, have done all the performance testing. As I said, Train 2 will ramp up I'm hoping over faster

than two to three years but I'm not going to change the guidance at this stage. Our contracts cater for that longer ramp up.

Mark Samter: (Credit Suisse, Analyst) So DQT aside, Train 1 will get contract pricing on all cargos as soon as it's at capacity?

David Knox: Yes, so what happens in the early phase commission, exactly the same as it happened on Papua New Guinea LNG, you sell commissioning cargos and we announced last - at the investor meeting last November that we'd sold 13 commissioning cargos. We're now in the process of selling more commissioning cargos. So you sell commissioning cargos up to the point where you say, the train's running and we're confident with the delivery. Then you go onto the contracted quantities in the annual delivery program. Then you're off under the contracts. At full contract prices, obviously.

Mark Samter: (Credit Suisse, Analyst) Right, okay, thanks for that. Then just one other question about the free cash flow positive oil price on page 13. Just to confirm that number is obviously pre any repayment on the capital of debt and any cash dividend if you start paying cash dividend again and obviously any ex-growth CapEx? It's pre all those factors?

Andrew Seaton: That's right, Mark. It's a free cash flow which is after interest, it's after tax but it's before principle repayments on debt or cash dividend, that's right.

David Knox: Mark, it is after interest. I think you included interest in your short list. It's after interest.

Mark Samter: (Credit Suisse, Analyst) Oh no sorry, just capital repayment on debt, yes, no it is after interest, I got that. Then just maybe one question whilst the dividend's being discussed. Can you talk us through the thinking of - it's being fully underwritten so you get the cash back, but the thinking behind cutting it versus first-half 2014 where obviously from a cash perspective it would have made no difference if it had stayed at the $0.20?

David Knox: Well this is obviously as balance. But in the light of the lower oil price environment, it's not something that you can pretend isn't there. It is there. The Board's elected to maintain a cautious approach, that's one that I fully support, and has brought the first-half dividend down by $0.05. I think that's entirely appropriate in the situation in which we find ourselves. As a company, and we've said it many times before, we'll always aim to balance shareholder returns with the operational needs of the business. But right now we've got to reflect the fact that the oil price has come down and therefore the Board is responding correctly, I think, and lowered the dividend.

Mark Samter: (Credit Suisse, Analyst) Okay, perfect. Thanks for that, guys.

David Knox: Mark, thank you very much.

Operator: Thank you. Your next question comes from Nik Burns from UBS. Please ask your question, Nik.

Nik Burns: (UBS, Analyst) Thank you. Look, I'll risk another strategic review question if I can. I'm sure I won't get much of an answer on it. But just look...

David Knox: No problem.

Nik Burns: (UBS, Analyst) Just wondering in terms of any timeframe in place. So is there any expectation that we might have the outcomes of the strategic review by, say, your investor briefing in November?

David Knox: Well as you - you're right, Nik, I'm not going to set any timeframe on the strategic review. It's being led by the Chairman in his executive role. I can assure you that Peter will give it his full vigour and he's going to drive this very hard, I know that, and we'll support him. It's the right thing to do at the right time. We need to look at all options. We have had some people approaching us, no doubt there will be others who will now do so, we've announced this. But we are looking at absolutely all options going forward and this is very much in the executive hands of Peter. I'll do my best to support him.

But clearly, with the falling oil price and the continuing suppression in our share price, we do want to get on with it. It's not something that will lie fallow at all. It's going to be driven hard. But I'm not going to in any way tie Peter's hands to a timetable, that would be totally inappropriate.

Nik Burns: (UBS, Analyst) Sure. Previously you've made a commitment to protect your investment grade credit rating and you've said here, all options are on the table. Can we infer from that that one of the things that may be looked at is that level of commitment and whether, maybe, a decision will be to maybe slip below investment grade for a short period of time as part of this review?

Andrew Seaton: Yes, Nik, I guess the important point to make here is that we've consistently said that maintaining the credit rating's been a key driver for us. Our actions to date support the intention, whether it's CapEx cuts, OpEx cuts, headcount reductions, right sizing the business, adding additional liquidity facilities. So all these things we've done have been to make the business robust in a low oil price environment and support the rating. Now I think the strategic review will look at all aspects of the business, including the balance sheet.

Nik Burns: (UBS, Analyst) Okay, fair enough. Just a question on CapEx as well, if I can. So first half CapEx was $845 million, you've maintained your $2 billion guidance for the full year. That obviously implies a $1.2 billion second half. I guess the expectation has been that maybe with GLNG getting close to starting up, maybe CapEx there will lighten. Can you give any colour of granularity on why CapEx in the second half's going to be higher than first half? Given also the fact that you're talking about - if that's correct and you've got $1.2 billion in second half 2015 and then $1.2 billion full-year 2016, it seems like quite a strange shape, if you like, for CapEx going forward?

David Knox: Yes, I think it's a good observation. Look, I'm driving this business extremely hard to bring our CapEx down without in any way reducing the quality of the business, losing any shareholder value and while doing it in a way that preserves options. So you're quite correct, we will be looking very hard at the second half and seeing what we can do to bring our CapEx down. But it's not with a view of deferring it into next year or any such nonsense. With a view to genuinely reducing our CapEx levels.

Andrew Seaton: But Nik, perhaps I could add, CapEx in the second half will be a bit higher in areas like - I'll give one example and that's the Cooper Basin. Where we've drilled a bunch of wells in the first six months of the year but we haven't fracked those wells and completed them. So the work program now is we've already started now fracking those wells. So we will see some increased costs in the Cooper, but just as the natural

part of this development goes on. Another example David mentioned, Roma West Phase 2B, we've sanctioned that project so that'll now ramp up a bit in the second half.

But all CapEx is being scrutinised. There's some swings and roundabouts in the portfolio. But we're confident with the guidance of $2 billion this year and the $1.2 billion next year I think is appropriate.

Nik Burns: (UBS, Analyst) Okay, great, thanks guys.

David Knox: Thank you Nik, thank you. Are there any more questions?

Operator: Yes, we have one more final question from Mr Stuart Baker from Morgan Stanley. Please ask your question, Stuart.

Stuart Baker: (Morgan Stanley, Analyst) Good morning, gentlemen. Just a little bit more on the CapEx. The figure there for 2016, I just wonder if you could give us some guidance as to what the shape of that figure might look like in the outer years, 2017, 2018, 2019. Obviously you've got learning effects from GLNG and just wondering if things really do get worse and worse and worse, what would be a bedrock type CapEx figure that you could get down to that allows the Company to operate safely and really maintain its assets, if you like? But for example could you get that figure down to $1 billion, $800 million, $600 million? What could we think about if oil prices go to US$35, US$40?

David Knox: Yes, a couple of things of course. In the event of oil prices continuing to fall, obviously costs are going to continue to come out of the system. So with that said, you can rest assured, we will run the business safely, we will make sure we deliver on our promises in a low-price world and we'll continue to drive costs out. It's a little hard to give a firm number, I think. But I would expect it to be well below $1.2 billion if we were in that situation. But maybe Andrew can add some more intelligent colour?

Andrew Seaton: Yes, I think that's right, David. Obviously we run our portfolio at a range of different scenarios and there are scenarios where you cut - continue to cut the business hard in the out years given a low oil price environment. I think you're painting a picture of a very low oil price moving forward. I think the strategic review also will have a bearing on what the makeup of our portfolio looks like in those out years. So very difficult to speculate. I suppose also you'd expect the - if the oil price is going to be low, the currency would probably come down with it, so giving some protection to our cash flow. So complex question, Nik, I think David answered it right.

David Knox: Stuart.

Andrew Seaton: Sorry, Stuart. I think David answered it in the right way in saying that you could take more CapEx out. We still have some discretionary CapEx in the budget next year. Examples being appraisal on AAL, some additional drilling in our gas assets in Indonesia as well, still funding exploration and that sort of thing which you'd look to cut further, Stuart.

Stuart Baker: (Morgan Stanley, Analyst) Right, okay, thanks very much. Yes.

David Knox: Thank you very much, Stuart.

Stuart Baker: (Morgan Stanley, Analyst) No worries and all the best then on the strategic review. I hope it goes well, thank you.

David Knox: Thank you. That's going to be led by Peter. If that's our last question, I'd like to thank everybody for joining us this morning. Thank you very much indeed, and hand back to Kevin.

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

End of Transcript