* * check against delivery* *

Thank you Paul and good evening everyone.

To the Honourable Bill Johnston, Minister for Mines and Petroleum, and Stuart Smith, CEO of NOPSEMA, the National Offshore Safety and Environmental Management Authority – thank you for joining us tonight.

I begin by acknowledging the traditional custodians of the land we are meeting on, the Whadjuk people.

With business in every state and territory of Australia, Santos operates across the ancestral lands of many different Aboriginal peoples and I acknowledge their involvement in our industry.

Let me start by thanking Paul and all the folks from the WA Petroleum Club who have organised this event.

I really appreciate the opportunity to speak tonight because it gives me the chance to talk about the exciting future ahead of

Santos, which is a much different company today than it was just a few years ago.

We may not be the largest Australian company in our sector but with operations and activities in every state and territory, Santos is without doubt, the Australian national oil and gas company.

I am pleased to say that Santos is now in growth mode, focused around five core asset and infrastructure hubs:

- Firstly, our domestic gas and liquids business here in Western Australia where we now operate Varanus Island and Devil Creek. These plants process gas and liquids from Reindeer, John Brookes, Spar-Halyard and Harriet. We also operate the Ningaloo Vision which processes oil from the Van Gogh and Coniston fields.

  And we have non-operated interests in Macedon and Pyrenees.

- In northern Australia we have an excellent offshore portfolio including Bayu Undan, Barossa Caldita and Petrel Tern.

We have an 11.5 per cent non-operated interest in Darwin LNG and an exciting onshore acreage position in the Amadeus and McArthur Basins.

- In our Queensland and New South Wales hub, we operate the GLNG project based on coal seam gas reserves in the Surat and Bowen Basins and we are on track to achieve 6 million tonnes of LNG production this year.

  In New South Wales we have extensive coal seam gas acreage and the only gas project on the horizon at Narrabri.

- The remote Cooper Basin is where Santos began in 1954 and spans the arid lands of northeast South Australia and southwest Queensland.

  The Cooper is a fantastic success story where we have not only arrested production decline, but production is actually growing again – in both oil and gas.

- And finally, Papua New Guinea, where we have a non-operated 13.5 per cent interest as a foundation partner in the PNG LNG Project.

The focus of the last three and a half years has been to turn the company around from an unsustainable situation where it was losing more than US$2 million every single day.

So it is fantastic to now be generating enough free cash flow to deliver returns to shareholders, reduce debt, and sustain and grow the business – even in a US$40 per barrel oil price environment.

I've set a production target of more than 100 million barrels of oil equivalent by 2025 – and everyone at Santos is focussed on achieving this goal.

Being in growth mode again is fantastic for our people because we now have the most diverse range of assets and growth prospects of any oil and gas company in Australia.

So they can see exciting long-term career opportunities opening up around Australia and in PNG, and I am also pleased that people outside Santos are now looking at the company with great interest as well.

Right now we have 11 rigs operating around the country – one here in WA, one in the Northern Territory, two in South Australia and seven in Queensland.

This year we are celebrating 50 years since the first gas from Moomba flowed to Adelaide homes and businesses, but with resources of more than 300 million barrels of oil equivalent in the Cooper... I can safely say we have more than 20 years of field life ahead of us.

Because we've reduced completed well costs by more than 50 per cent over the last few years and we continue to set drilling records, we are on track to deliver more than 100 Cooper wells this year.

In Queensland, we've reduced connected well costs in our coal seam gas operations by more than 80 per cent, we drilled a record 102 wells in the second quarter, and over the full year we will deliver 350 to 400 coal seam gas wells.

In New South Wales, momentum is finally behind our Narrabri Gas Project and I am hopeful of a planning decision by the end of 2019 so that we can move forward with this project next year.

In PNG, we announced in May a binding letter of intent to acquire a 14.3 per cent interest in the P'nyang Field.

This is an important step towards the proposed expansion at the PNG LNG plant via a third LNG train, which will take capacity up to more than 11 million tonnes per annum and will be fed by existing Project resources and P'nyang.

In northern Australia, our Barossa Joint Venture has entered into exclusive negotiations with the Darwin LNG Joint Venture to backfill the plant when Bayu Undan production ends in the early to mid-2020s.

Here in Western Australia, we are looking forward to progressing the development of the Dorado field and potentially, our exciting Corvus discovery.

<u>Dorado</u>

If my memory is correct, it was at this event last year that the Dorado discovery was described as a “game-changer”, “staggering” and “solidly commercial”.

As a privately-owned company – at the time – Quadrant wasn’t bound by the disclosure rules of its partner in the discovery, Carnarvon Petroleum, which settled on the word “significant”.

Well – Dorado is indeed a significant resource, probably more than our current 2P reserves in PNG.

What’s great though is that more than half of these resources are liquids.

So this is a very material discovery and I am looking forward to providing more details in our half-year results in a few weeks’ time.

While the recent Roc South-1 exploration well northeast of Dorado was disappointing, this is the nature of exploration.

But as my geologists and geophysicists say, Santos has lots of "running room" in the Bedout Basin, and we're only just getting going.

Domestic gas

While the excitement of opening up a new province in the Bedout Basin has been a highlight of the past year, Santos is currently the biggest producer of domestic gas in Western Australia, supplying almost 40 per cent of the market.

As the Australian national gas company, Santos is committed to being the leading domestic gas supplier, not only in WA, but right across the country.

While all our WA gas is sold into the local market, most of it is powering the mining and industrial sector which is underpinned by Asian demand.

In other words, the WA domestic gas market is directly linked to Asian markets and Asian growth.

And at current prices, it is not surprising that the WA Premier has been telling manufacturers in the east to "come west", where gas prices are less than half those on the east coast.

In the short term, that looks set to continue.

The most recent WA Gas Statement of Opportunities states that potential gas supply exceeds forecast domestic gas demand over the next 10 years.

But the GSOO also sounds a warning – gas supply in WA will decline through 2021, in line with reserve depletion at existing facilities.

And, from as early as 2022, potential gas supply from existing and under-construction supply sources is expected to be insufficient to meet even the low case for forecast gas demand.

This means there is a supply gap that is expected to be filled by opportunities which are not yet sanctioned for development.

Bridging this gap is premised on new LNG projects reaching FID and delivering their 15 per cent domestic market obligation into the WA market.

But what happens if those projects don't proceed or are delayed – a very real possibility as Chinese buyers in particular hold out on contracts while they watch the US-China trade war unfold?

When enough new gas supply isn't developed to meet demand, the outcome is what we are currently seeing on the east coast.

And, what we have seen here in WA not that long ago.

Let me quote from the March 2011 WA Parliamentary Inquiry into Domestic Gas Prices:

"The prices of new domestic gas contracts in Western Australia are at least double those of the eastern states."

If you want to predict the future, history is always a good place to start.

So, can we afford to simply rely on new LNG projects for domestic gas here in the West?

Back in 2011, more than 97 per cent of WA's gas supply came from the North West Shelf Project, John Brookes and Harriet.

Today's low domestic gas prices in WA are a direct result of the investment decisions made from 2007 to 2011 – in Pluto, Devil Creek, Gorgon, Macedon and Wheatstone – to bring on new gas supply sources, the first of which started up in December 2011.

All of these investments were responding to rising demand and rising prices domestically and internationally.

The question now is… in the absence of new LNG projects, will domestic gas producers like Santos be able to fill the supply gap from 2022 onwards?

It's not easy supporting exploration and development in a low price environment because exploring for, and developing gas is expensive.

We need to find a pathway to accelerate the next round of domestic gas development *"to ensure that domestic gas prices can settle at levels substantially below LNG netback values, whilst offering producers returns that encourage further exploration and development."*

This was the policy aim of the 2011 WA Inquiry and one which I am sure all of us still support today.

One pathway to achieve this outcome would be for domestic gas producers to be able to access higher-priced markets such as those in Asia or indeed, on the east coast of Australia.

Domestic gas producers would be incentivised to develop and deliver gas for the local market if they, too, had access to LNG infrastructure and the opportunity to benefit from blended pricing.

Higher prices from LNG would offset lower margins on domestic gas sales.

Whilst LNG prices are currently subdued, they remain higher than domestic gas prices and more likely to stimulate gas exploration and development, keeping WA's LNG trains full and making more gas available to the domestic market.

In fact, some domestic gas producers – including Santos – have projects close to LNG infrastructure and with low development costs that could provide LNG producers with exactly the edge they need in what is currently a highly competitive market for new LNG contracts.

Without access to LNG infrastructure or other higher-priced markets, however, the economics of some of these projects, despite low development costs, will be very challenged – particularly when there is a risk of displacement by LNG DMO gas that is sold on a compliance basis.

Doing the right thing locally is critical to our social licence to operate, and that includes ensuring the domestic market has adequate supplies of reliable and affordable natural gas.

I don't have all the answers today, but this is something we all need to be thinking about long before a price spike occurs in three or four years' time when AEMO is flagging a supply shortage.

Gas is the fuel of the future

In closing I want to make some remarks about the WA EPA's proposed guidelines… in particular, how it will consider greenhouse gas emissions in future environmental assessments of gas projects.

Let me first say that increasing LNG exports is the best thing we can do to reduce global emissions by displacing coal and dirty fuels in Asia.

That's because for every tonne of carbon dioxide emitted during production in Australia, our LNG saves between 3 and 10 tonnes of emissions when it is used for power generation, instead of coal, in Asia.

When you consider that Asia accounts for half of the world's 50 billion tonnes of annual greenhouse gas emissions, this is a significant contribution to global climate action.

The role of natural gas in global emissions reduction is an important driver of global gas demand, which is set to grow at twice the pace of worldwide energy demand between now and 2035.

So the gas is going to come from somewhere to meet that demand, whether it’s the US, the Middle East, Russia or Australia.

The best place for it to come from is Australia because we have the strictest environmental regulation in the world – and a culture in industry, governments, regulators and communities… that takes great pride in protecting our clean air, clean water and amazing natural environments.

This is good news for Australia which has natural gas resources in abundance – enough to last many hundreds of years at current production rates.

And while we are making a global contribution to climate change, we are also acting locally.

Santos has set a target to reduce our own production emissions in the Cooper Basin and Queensland by 5 per cent by 2025.

This year we're investing A$50 million in projects in the Cooper Basin to reduce our carbon footprint, including deployment of solar energy, waste heat recovery at Moomba and appraisal of carbon capture, utilisation and storage which could also enhance oil recovery.

A win for emissions, a win for energy efficiency and a win for our business.

Proving up and deploying CCUS technology is also vital to achieving the world's long-term aspirations for zero emissions and I want Santos to be a leader in the field.

At the moment the technology does not qualify for generating Australian Carbon Credit Units and this is something that needs to change.

We will be working with the Government on this over the coming months.

In the United States, CCUS technology is eligible for tax incentives and I am keen for governments in Australia to consider similar incentives to accelerate CCUS deployment… because the fact is that meaningful emissions reduction over the long term can only be delivered with large-scale CCUS.

As I said earlier, the best thing we can do for global emissions reduction is to increase Australian LNG exports to Asia.

But that doesn't mean there's a role for regulators to consider Scope 3 emissions in project approvals.

All that will do is scare off new downstream investment in the very industries that will help the WA Premier meet his target of 150,000 new jobs within five years.

Santos has already committed to a target of net-zero emissions by 2050 and we publish an annual Climate Change Report that meets the Guidelines of the G20 Taskforce on Climate-Related Financial Disclosures.

This is a publicly-available report, as is our annual disclosure of emissions through the Australian Government's National Greenhouse and Energy Reporting Scheme.

Australia's gas industry has a great future ahead of it with gas demand continuing to grow for at least the next two decades.

The Western Australian and Australian economies stand to benefit enormously in terms of secure, skilled, well-paid jobs, small business opportunities, export dollars, tax revenues and regional development.

What's critical to this opportunity is our international competitiveness because, as I said, whatever Australia does, the gas is going to come from somewhere to meet Asia's growing demand for reliable, cleaner energy.

I am sure all of us here tonight want Australia to capture the wealth that our gas resources can deliver for future generations over the coming decades.

Thank you.