

Santos Managing Director and Chief Executive Officer, Kevin Gallagher's address to the Energy Club WA on Tuesday, 7 September 2021.

Thank you, Dario.

And thank you to your team at the Energy Club who have organised this event tonight.

Good evening ladies and gentlemen.

It's great to see such strong support for the Energy Club here in Western Australia.

More than 300 people gathering here this evening.....the huge turn-out for the APPEA Conference back in June – which I'm told was the biggest conference held in Australia since the beginning of the pandemic.....and I expect there will be a full house for the AFL Grand Final in just over two weeks' time.....

Perth is certainly the place to be!

But, I hope it is not too long before we can enjoy Perth's freedoms right across the nation and, in time, reconnect with the rest of the world.

Of course, that means getting as many people vaccinated as fast as possible.

I acknowledge the traditional custodians of this land, the Whadjuk people, and I pay my respects to their Elders past, present and emerging.

Santos operates across the ancestral lands of many different Aboriginal peoples and I thank them for their support and acknowledge the important role they play in our industry.

It is just over two years ago since I was last here speaking with you.

However, after the events of the last 18 months, it feels more like a decade ago!

Although we had to put our exciting growth opportunities – Dorado and Barossa – on hold during the pandemic, they are now off and running again.

What has changed most in the last two years, despite the global economic shock that came with the pandemic, is the pace of the global energy transformation and the race to net-zero emissions.

This is the single biggest challenge – and opportunity – facing our industry over the coming decade.

Our growth projects are now not only in oil and gas, but in carbon capture and storage, and new fuels such as hydrogen.

Before I explore that, however, I want to say a few words about our proposed merger with Oil Search.

This is a proposal that could create a regional champion of size and scale, with an unrivalled growth portfolio.

It fits with our company strategy to transform, build and grow around our core assets and, if successful, it will be the third major transaction Santos has completed over the past three years.

Delivering a market cap of more than A\$20 billion, a merger would likely put us in the top-20 ASX-listed companies and the 20 largest global oil and gas companies.

Our combined 2021 production will be approximately 116 million barrels of oil equivalent.

Size, scale and strong free cash flow generation would position us for success in the new era of decarbonised fuels and energy.

Critically, this would provide the platform for us to self-fund growth and deliver strong shareholder returns, well into the next decade.

In other words, the size and scale that comes from this merger and the cash generative nature of our base business is what will help us fund the transition to net-zero emissions.

Which brings me back to the global energy transformation that the world is demanding.

Two years ago, I talked about our aspiration of being net-zero by 2050 – then an industry-leading position.

Today, our target is net-zero by 2040 – and again, it is industry-leading.

Just a few years ago, net-zero by 2050 was the gold standard around the world – and a target which countries representing nearly 75 per cent of the global economy have signed up to.

Today, the world is demanding an even faster transition.

While many share such an aspiration, few countries – and few companies – have a credible plan to get there.

What makes Santos an industry leader is that we have outlined a credible and fundable emissions-reduction roadmap to get to net-zero by 2040.

It is a roadmap based on increasing the use of renewables in our operations, increasing our energy efficiency, developing nature-based offset projects – and of course, very significant investments in large-scale carbon capture and storage projects.

The first project we are developing is our 1.7 million tonnes per annum Moomba CCS project in South Australia.

CCS is the only technology that can deliver large-scale, permanent carbon sequestration to offset the emissions from oil and gas production, and indeed, hydrogen made from natural gas.

It is also the only technology that can abate carbon emissions in many industries outside the energy sector.

Such industries produce CO₂ as a process emission, regardless of the source of energy they use.

For example, 65 per cent of emissions from the production of cement arise from the process of turning limestone into lime.

These emissions cannot be avoided.

Other industrial processes with significant CO₂ emissions are iron and steel production, fertiliser production, biofuel production and petrochemical processes.

Those processes produce plastics and 60 per cent of the world's clothing fibres, as well as a multitude of other chemicals that we rely on every day, such as toothpaste and hand sanitisers.

In fact, industrial emissions account for about 40 per cent of total man-made emissions worldwide.

A fact worth considering is that the International Energy Agency's Sustainable Development Scenario requires 15 per cent of the world's emissions reduction to be achieved using CCS.

This need for CCS – identified by the IEA – translates to a 100-fold increase in CCS capacity by 2050.

To get there, the Global Carbon Capture and Storage Institute estimates the capital investment required at between 655 billion dollars and 1.3 trillion US dollars.

Therefore, investment must come from the private sector because this level of capital far exceeds what governments can or will spend in the timeframes required.

I believe there is no sector better placed to invest in and deliver CCS projects than ours – we have a competitive advantage in understanding the geology, engineering, technical risks and costs of CCS.

And in many cases, we have access to existing infrastructure and depleted reservoirs that have held oil and gas in place for tens of millions of years.

The 28 commercial CCS facilities around the world today have

mostly been financed on the books of state-owned enterprises and large corporations, and in most cases, these projects have relied on the commercial value of CO₂.

For example, by generating revenue through enhanced oil recovery or the sale of CO₂ for industrial use.

These projects demonstrate that, where there is a reliable revenue stream and a business case, the private sector will invest in CCS.

This is why it is so important to develop a CCS method to enable CCS projects to generate revenue from Australian Carbon Credit Units.

I want to commend the Federal Government and the Clean Energy Regulator for their foresight and hard work over the past few years to accelerate the development of the CCS method.

I understand it is on track to be implemented this month, paving the way for Santos to take a final investment decision on our Moomba project, which will be one of the biggest CCS projects in the world.

The CCS method will provide a reliable source of revenue for CCS projects in Australia – a critical element to incentivise private sector investment and to make the business case stack up.

For Santos, the Moomba CCS project is just the first step in our three-CCS hub vision.

Our second hub would utilise the Bayu-Undan facilities offshore in Timor-Leste to store carbon from our Barossa gas project.

With up to 10 million tonnes of capacity, we expect the investment would also attract third-party sources, including other gas producers, hydrogen producers and regional industries.

Recently we also announced the potential for a third CCS hub based around our existing offshore facilities here in Western Australia.

We will have more to say on our WA CCS plans over the course of the next year or so.

However, leveraging off our existing infrastructure footprint could potentially provide more than 30 million tonnes per annum of CCS capacity across three Santos-operated hubs.

That's abatement of around 4.5 per cent of Australia's total emissions each year.

Moomba will be the first project to hit the go button, but with that project being investment ready, I am keen to ensure we remain ahead of the game.

With a known depleted reservoir and existing facilities, Bayu-Undan is, like Moomba, an exciting, relatively low-cost project that could be on-line in the middle of this decade.

It could be the enabler to unlock the wealth of gas resources offshore and onshore northern Australia and provide carbon-neutral LNG, zero-emissions hydrogen and carbon-neutral manufacturing products to the world.

There is still much more work to be done to reduce policy and revenue risk to accelerate CCS deployment.

For example, in financing.

Low-cost financing, through export credit agencies, multilateral agencies such as the World Bank, or specialist financiers such as the Northern Australia Infrastructure Facility or Clean Energy Finance Corporation – is essential.

Support from these specialist financiers would allow the participation of commercial lenders in CCS projects, reducing risks that might otherwise prevent their participation in what is a sunrise industry.

And, as international climate negotiations get under way at COP 26, opening up international carbon markets by operationalising Article 6 of the Paris Agreement should be the number one priority.

Article 6.2 allows countries to strike bilateral and voluntary agreements to trade carbon credits.

With carbon prices at around A\$23 per tonne in Australia today, compared to around €60 per tonne in Europe, access to international trading could be a gamechanger for CCS projects here in Australia – and potentially, in Timor-Leste.

There is already enormous interest in CCS and hydrogen investment in Australia from countries such as Japan and Korea, which have long been our trade and investment partners in LNG.

As our customers in these countries transition to a net-zero future, no one is better placed than Australia to provide clean fuels and energy products, and safe, permanent carbon storage to help them meet their emissions reduction targets.

I see enormous opportunities for Santos, for our industry and for the nation through a new, large-scale CCS industry producing high-quality carbon credits, underpinned by the integrity of our world-class Clean Energy Regulator.

High-quality carbon credits will be in big demand from emitting countries that lack Australia's competitive advantages in carbon storage.

Natural gas, combined with CCS, is also the lowest-cost pathway to a zero-emissions hydrogen economy today.

Importantly, our gas and LNG customers of today will be the hydrogen customers of tomorrow and they are increasingly demanding lower-carbon products.

They will set the timeframe for commercial use of hydrogen.

My job is to be in a position to meet the market for hydrogen as it evolves over time.

While most in business know it is your customer who decides what and how much you produce, we are seeing a growing expectation that we should not only be responsible for our own emissions, but also those of our customers.

Santos has committed to work with our customers to reduce their emissions by one million tonnes annually.

We are doing that voluntarily.

But it is important to remember that there is an international accounting framework for emissions that Australia has signed up to – the United Nations Framework on Climate Change.

This is the foundation of the Paris Agreement.

Our Scope 3 emissions are the Scope 1 and 2 emissions of our customers and they are accounted for by our customer countries, all of whom are signatories to the Paris Agreement.

When considering Scope 3 emissions, this is too often ignored, including by regulators.

Having said that, our goal is a world with no Scope 3 emissions.

Hydrogen has the potential to get us there and enabling the gas developments required, combined with CCS, should be front and centre in policy making and regulation.

The IEA's recent Net-Zero by 2050 report suggested that around half of the natural gas used globally in 2050 would be used to make hydrogen.

This is just one of many future possibilities, but in every energy scenario, natural gas and CCS remain critical in the energy and emissions reduction mix for decades to come.

To fund our energy transition and to make investments in what I believe will be a new carbon storage industry in Australia, strong cash generation in our base business is vital.

Therefore, Santos will continue to invest in domestic gas and LNG projects to support our customers and drive strong cash flows.

Here in Western Australia, Santos supplies around 45 per cent of the state's domestic demand and we are committed to continuing to meet the needs of Western Australian businesses and households.

In June, we announced FEED for the US\$2 billion Dorado project, an integrated oil and gas project in the emerging Bedout sub-Basin.

We are due to take a final investment decision on that project in the middle of next year, and early next year we will drill the Pavo and Apus prospects which, if successful, would tie into Dorado.

We have taken FID this year on the Spartan gas development, targeting first gas in early 2023 and we plan to drill the Dancer prospect this year and Yoorn in 2022.

Further afield, we took FID on the Barossa gas project to backfill Darwin LNG – creating jobs here in Perth through the procurement and construction phase of the project.

Stand alone, Santos is in an excellent position to fund the energy transition from our base business with stable production over the next decade, a low cost operating model and strong cash generation.

Further, we have a diverse portfolio of growth opportunities in gas, LNG, liquids, carbon capture and storage, and in new fuels such as hydrogen.

Combined with Oil Search, we would be even stronger.

I am very excited about every part of our business, the base business and the new business – and I look forward to taking questions from Bernadette and also from the floor.

Thank you members, guests and sponsors.

I will now hand over to Bernadette.