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Australian LNG: Strong Demand, Rising Commodity Prices - But Will Cost Inflation Erode The Upside?

Estimate Change in Bold

Ticker	Rating	CUR	2/14/2011 Closing Price	Target Price	TTM Rel. Perf.	EPS 2009A	EPS 2010E	EPS 2011E	P/E 2009A	P/E 2010E	P/E 2011E	Yield
OSH.AU	O	AUD	6.88	8.50	11.9%	0.09	**0.11**	**0.11**	76.4	62.5	62.5	0.8%
OLD							0.10	0.12				
WPL.AU	O	AUD	42.56	53.00	-20.2%	2.71	**2.00**	**1.99**	15.7	21.3	21.4	2.6%
OLD							1.83	2.50				
STO.AU	O	AUD	13.99	15.00	-14.7%	0.34	**0.42**	**0.42**	41.1	33.3	33.3	3.0%
OLD							0.40	0.50				
MXAPJ			460.73			24.64	32.14	37.08	18.7	14.3	12.4	2.7%

O – Outperform, M – Market-Perform, U – Underperform, N – Not Rated

Highlights

Australian E&P's will announce their 2H and FY earnings over the next 2 weeks. For investors, earnings will take a back seat to updates on progress with key LNG projects. While Woodside will be in focus with Pluto expansion, Oil Search may surprise more with their PNG exploration strategy and outlook

- **The outlook for global LNG remains very positive; with strong demand growth additional supply required to meet long term demand growth.** With 6 projects looking to declare FID this year, 2011 could be a record year in terms of new LNG projects sanctioned. As a result of the new project start ups, we expect a surge in Australian LNG output in 2015.
- **While Australia remains at the centre of global LNG expansion, investors should not expect all projects to move forward.** There are over 130mtpa of projects which are slated for development. Given that only 60-80mtpa of new projects are likely to be developed over the next 10 years, investors should expect that half of the projects currently proposed will be delayed into 2020 and beyond.
- **Cost inflation and delays in the LNG sector continue to be a concern.** LNG project costs have trebled over the past decade eroding much of the upside for investors. New projects are likely to cost $3000/ton and require $80/bbl oil price (real) to generate a marginal return on capital. Given high costs, we expect LNG pricing to remain firmly oil linked.
- **Clear catalysts exist for a number of Australian companies this year.** For Woodside expect further updates on progress with Pluto Train 2. For Oil Search we expect an update on the timing of their Hides gas field appraisal in support of PNG LNG Train 3 and outcome of their strategic review which we believe will highlight exploration potential in PNG.
- **Within the LNG sector, we continue to favor companies which have low cost expansion potential and significant upside resource potential.** We continue to favor Oil Search where we believe that Train 3 has significant upside exploration potential. We also like Woodside on the basis that Pluto Train 2 LNG will reach FID this year.

Asia-Pacific Oil & Gas

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Investment Conclusion

We continue to have an overweight stance towards Australian E&P's exposed to global LNG. With strong LNG demand growth and limited new supply coming onto the markets over the next 3 years we expect LNG markets to tighten. This means more LNG will be needed for the 2014/15 window which is looking tight in our view. Moreover, given our bullish view on commodity prices and oil linked nature of LNG contracts, Australian companies stand to benefit from higher commodity prices. The key risk remains cost inflation and delays which could significantly erode expected value from LNG projects which is a concern given the relatively low (<14% IRR) rates projects are being sanctioned on.

We prefer companies which are lower down the cost curve and have near term catalysts for growth. Our top pick within the sector is Oil Search which has significant upside from PNG LNG T3, followed by Woodside where the key near upside remains Pluto LNG expansion. Earnings results over the next 2 weeks should provide investors with greater clarity on the likely timing of the next key catalysts.

Details

Australian E&P's will deliver their 2H and FY 2010 results over the next 2 weeks with Santos the first to report this week followed by Woodside and Oil Search **Exhibit 1**. As usual the focus will be more on what is said rather than the numbers. In this research note we provide an update on costs and schedule for the Australian LNG projects and what investors should expect from the results announcements.

Exhibit 1
Reporting Timeline

FY2010 Results Release	Date	Time	Conf. call numbers	Passcode	Presentation Slides
Santos	Thursday, Feb 17	11:00am AEST	AUS: 1800 148 258 HK: 800 965 808 SGP: 800 616 2170 UK: 0800 0569 662 US: 1866 5862 813	Santos / ID 36340392	www.santos.com
Woodside	Monday, Feb 21	10:00am AWST	AUS: 1800 428 662 UK: 0808 234 8309 USA: 1866 519 7010 HK: 800 930 392	40013629	www.woodside.com.au
Oil Search	Tuesday, Feb 22	11:00am AEST	TBC	TBC	www.oilsearch.com

Source: Company reports

Performance over the Past Month

According to the E&P playbook, investors stand to make the greatest upside from stocks in the phase between exploration and project sanction and at the point of production start up. For the Australian E&P's, the reverse was true in 2011. Oil Search, which had just declared final investment decisions (FID) on the PNG LNG project was the best performing stock, while Woodside and Santos (both seeking to FID projects) performed in line with the ASX (**Exhibit 2**).

The difference in performance was driven by changes in cost expectation and the outlook for incremental project developments. For Woodside, Pluto costs were increased to $A14bn while exploration results in the Carnarvon basin proved to be somewhat disappointing. Despite Santos reaching FID and full marketing volumes for LNG, the increase in pre-start up capex to $16bn together with a series of necessary but uninspiring farming out deals did nothing to excite investors. Oil Search on the hand has made solid

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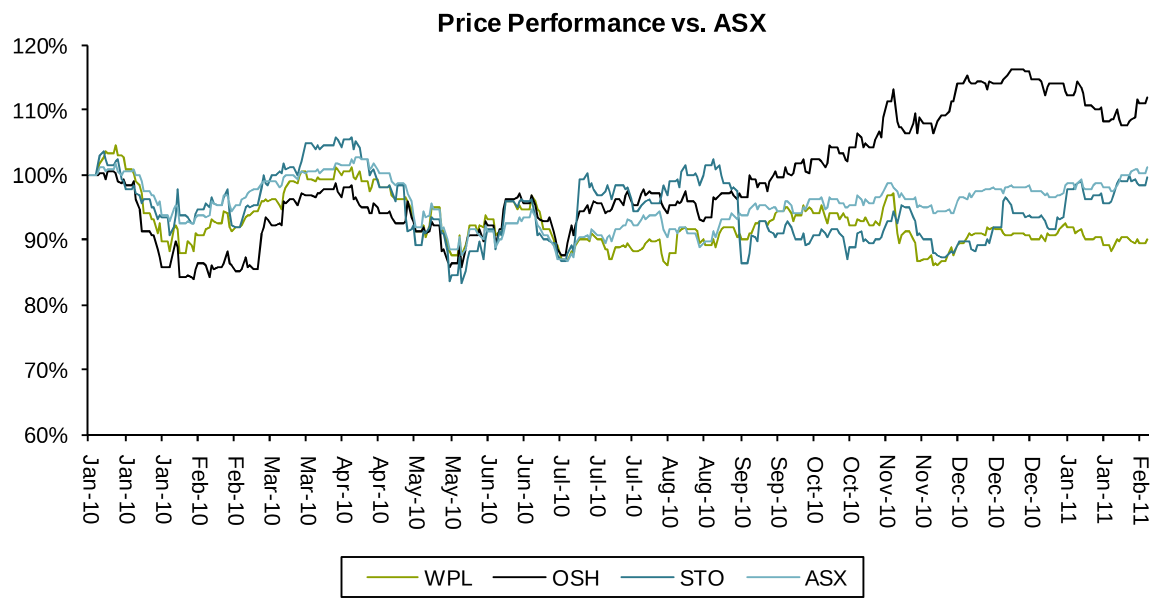
progress with the start of its PNG LNG project and continued to make positive noises about the potential for a third train within its PLG LNG project which continues to be of strong interest among investors.

Exhibit 2
Share Price Performance Over Last 12 Months – Not According to the Play Book

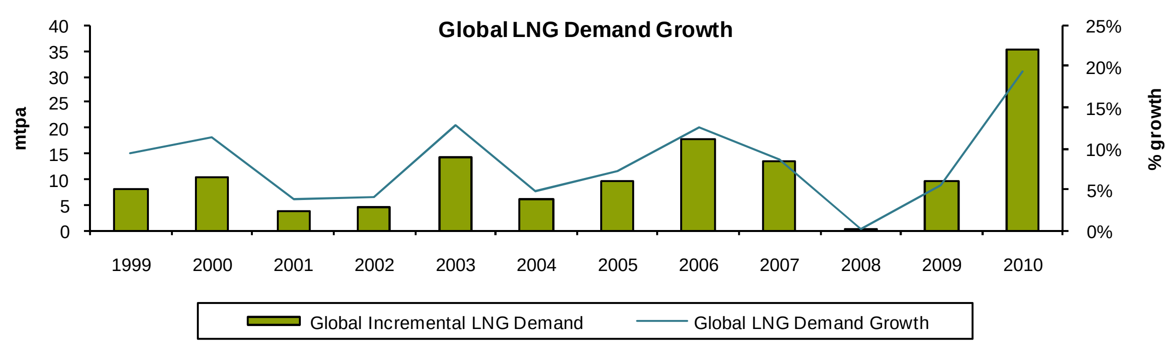


Source: Bloomberg

Outlook for LNG

The outlook for global gas and LNG looks to be very strong. Global demand growth reached 20% last year driven by the surge in export volumes by Qatar and driven by demand growth in Europe and to a lesser extent emerging markets. We expect demand growth will remain relatively strong over the next 3 years of 7-8% per year which will result in an incremental 15mtpa of additional demand (**Exhibit 3**).

Exhibit 3
Global LNG Demand Growth



Source: Bloomberg, Bernstein analysis

At the same time as demand is strong, expect that supply growth will be unable to keep up. Over the next few years we expect relatively limited new capacity to start up with only a few projects in Angola, Algeria and Australia start up. In total expect only 15mtpa of new capacity (ex-Qatar) to come on-stream in the

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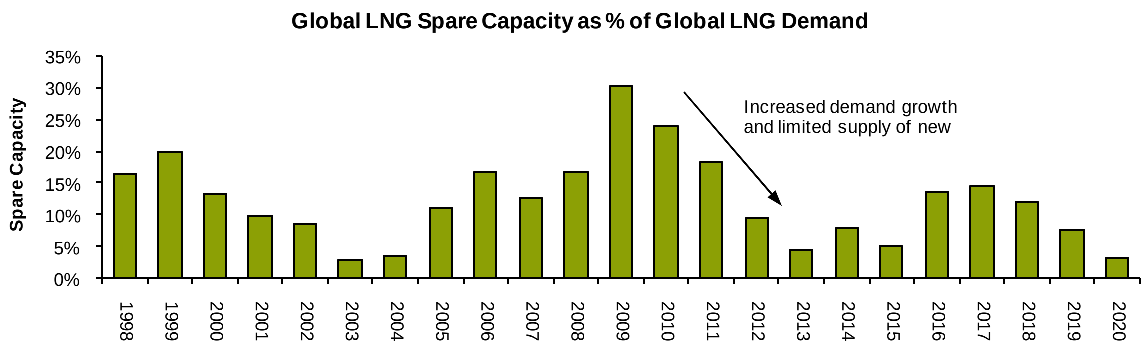
period from 2011-14. Over the same period we expect relative to cumulative demand growth of 45mtpa - 50mtpa (7-8% p.a CAGR growth) (**Exhibit 4**). In addition we also expect to see declining output from Malaysia and Arun in Indonesia as the project comes to an end. The net effect will be to tighten the overall supply-demand balance for LNG resulting in tight markets in the period 2013-15. With the possibilities of project delays it may be that supply-demand become tighter than depicted here. Assuming many of the planned projects are developed, supply and demand will come back into balance in 2017.

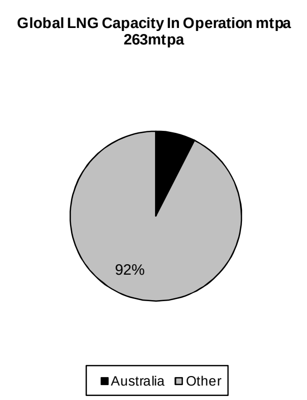
Exhibit 4
Strong Demand and Slower Export Capacity Growth Will Reduce LNG Spare Capacity by 2013-14



Source: Bernstein estimates

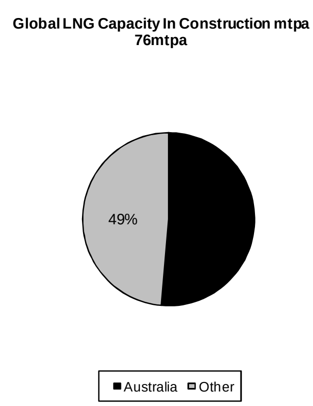
The most important country in driving the demand side of the equation will shift from Qatar to Australia over the coming years. Although Australia accounts for less than 10% of current LNG production, more than half of the projects in construction are in Australia as are nearly half of all planned projects (**Exhibit 5** to **Exhibit 7**). The success or not of these projects will have a critical impact on the global LNG supply-demand balance.

Exhibit 5
Australia Has Less Than 10% of Current Capacity…



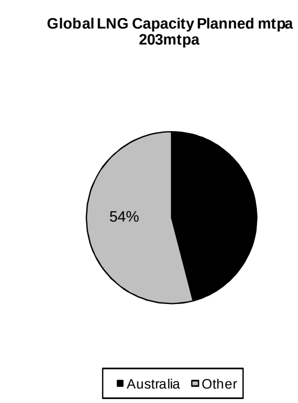
Source: Bernstein estimates

Exhibit 6
…But One-Third of Capacity Under Construction…



Source: Bernstein estimates

Exhibit 7
…And Over 50% of Planned Liquefaction Capacity



Source: Bernstein estimates

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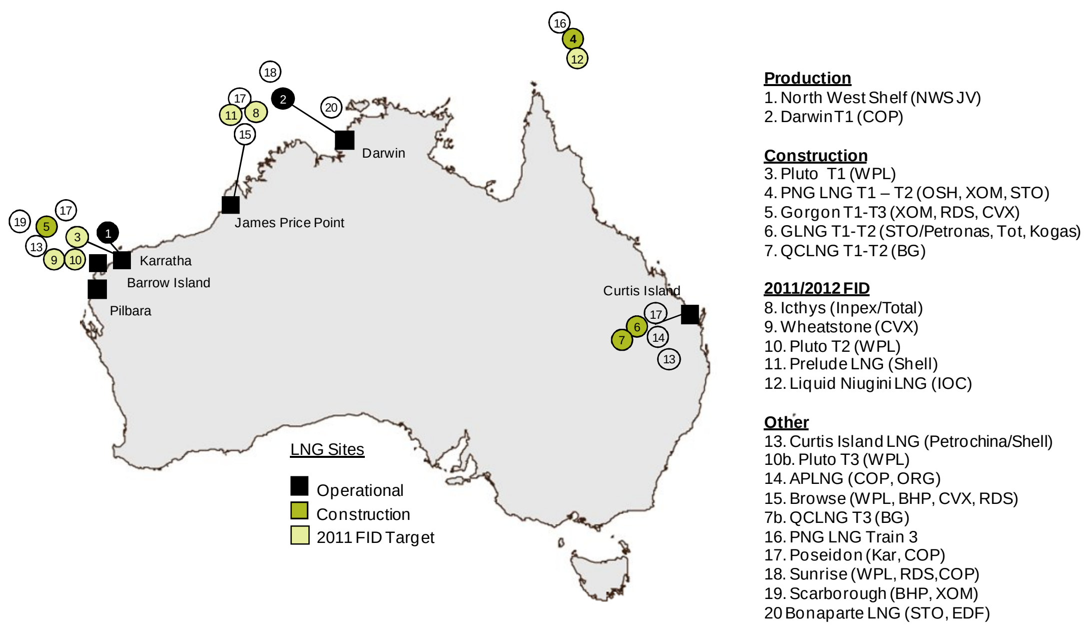
Update on Australian LNG

Currently there are over 20 LNG projects in Australasia which are under development. Main hubs are located in Western Australia, Queensland, Browse Basin and PNG. Two of these projects are in operation with a further 5 projects under construction with the Pluto 1 project the furthest advanced and will start up later this year (**Exhibit 8**).

While GLNG (which is the first project to declare FID this year) there are a further 5 projects seeking to decline FID in 2011 (**Exhibit 9**). Pluto 2, Icthys, Wheatstone, Prelude and the Liquid Niugini LNG project are all chasing FID decisions. Total and Chevron continue to make positive signals around intent to move forward with Icthys and Wheatstone, although the challenge remains to get the numbers to work given the enormous costs of these green field projects. Pluto 2 economics should be more reasonable given this is a brown-field expansion – but the key risk is securing the reserves.

Beyond this there are a number of projects which are progressing through the appraisal and FEED process. APLNG is the most advanced, with Petrochina/Shell also seeking to reach project sanction on their LNG project in Queensland post acquisition of Arrow's assets. A third train at Pluto and PNG LNG also seem to be possible within the 2013 time frame. Longer term Browse, Sunrise and Scarborough remain other options although they are at a less advanced stage in our view given some of the issues with partner and government alignment.

Exhibit 8
Australasian LNG Supply Projects – Current/Construction/Future



Source: Bernstein analysis

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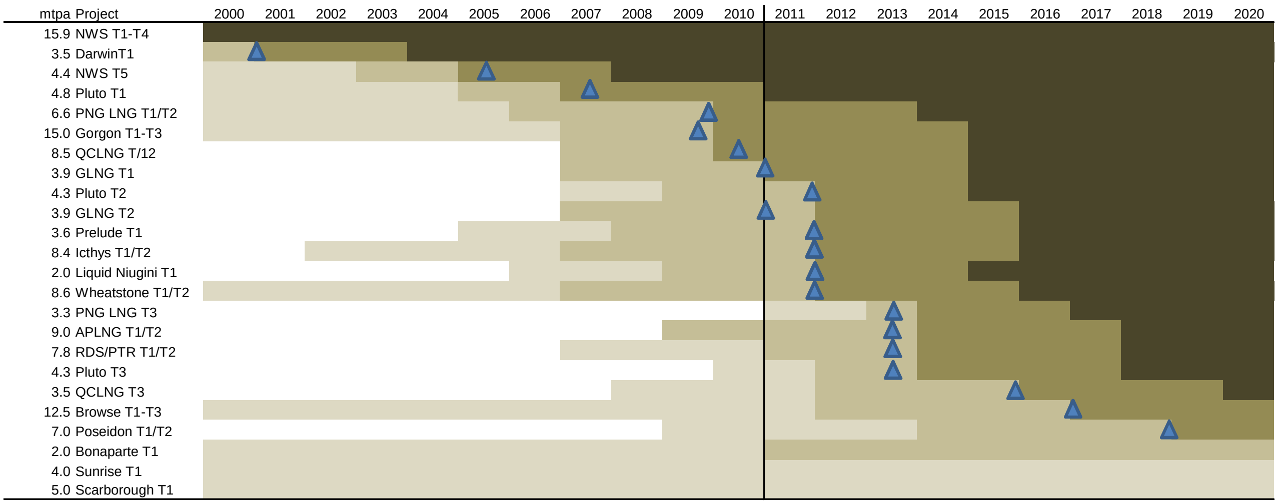
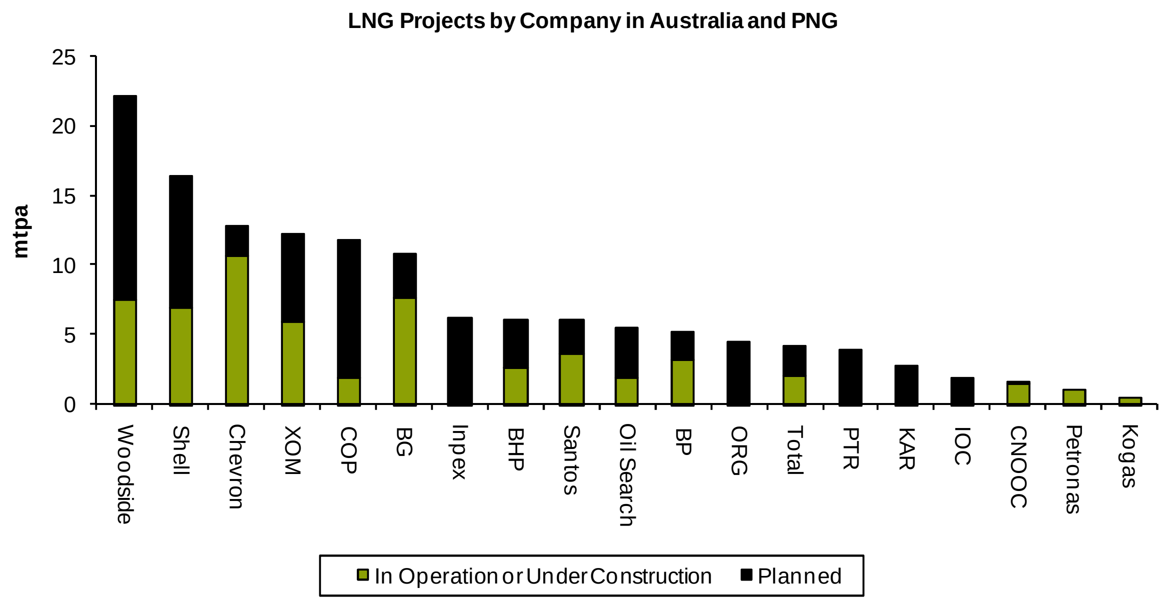
Exhibit 9
Australian LNG Project Timelines



Source: Bernstein analysis

Woodside, Shell, Chevron remain the biggest players in Australian LNG, although BG and XOM have made significant progress in their strategies over the past few years. Including all planned and possible projects, Woodside remain the biggest player with over 20mtpa in projects, followed by Shell and Chevron (**Exhibit 10**). On the basis of projects which have been approved only, Chevron has the biggest LNG portfolio in operation and under construction (as a result of Gorgon FID) followed by BG following FID of their QCLNG project.

Exhibit 10
LNG Projects by Company in Australia and PNG



Source: Bernstein analysis

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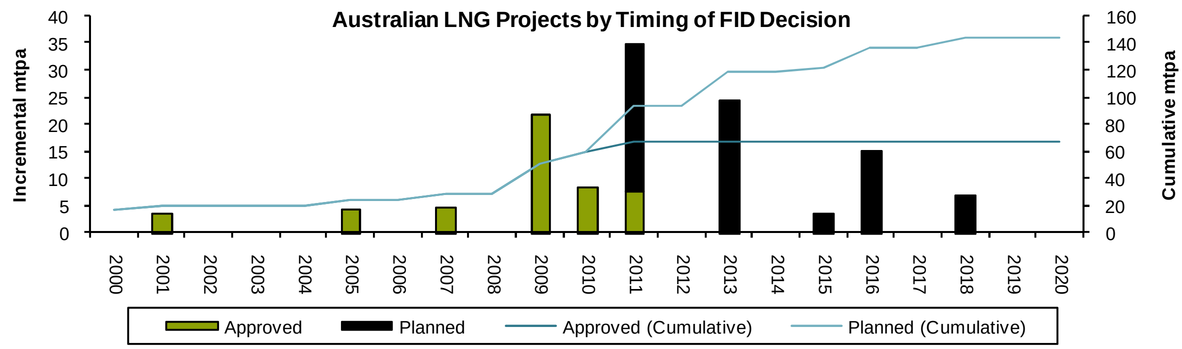
Australian LNG Projects – Is the Growth Profile Achievable?

A key question for investors is how achievable are Australia's LNG aspirations and how likely is it that projects which are currently under planning will be approved? Unfortunately there are not many analogues. Over the last 10 years Qatar went from 20mtpa to 80mtpa over the period of a decade. This is with a flexible labor market, no planning restrictions, but also in a country with tight control over resources and the pace of project development. While Australia may be able to do more – it will not be by much.

Australia currently produces 20mtpa. With all the projects which have been approved, LNG production will increase more than 3x to 66mtpa by 2020, even if no other LNG projects are sanctioned. If all projects which are currently contemplated are approved (and there will be more to add to this list as time goes on) then Australia could have over 140mtpa of LNG approved by 2020 with 120mtpa of LNG in production by 2020 (**Exhibit 11**). This is too high and seems highly unlikely to be delivered.

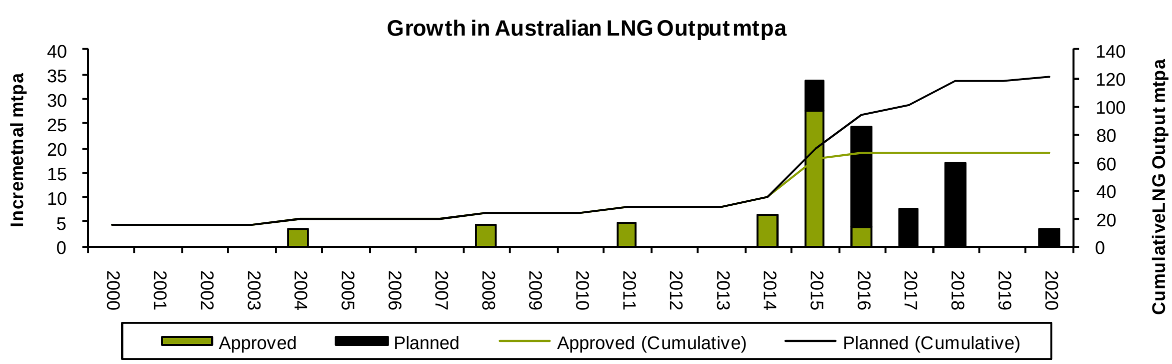
Exhibit 11
Australian LNG Projects by Timing of FID Decision



Source: Bernstein analysis

Given the number of projects which are competing for development, 2011 could be a record for Australia in terms of total number of LNG projects approved. At the same time, 2015 and 2016 could see a surge in LNG supply reach the market, equivalent to the spike in LNG supply witnessed in 2009 when Qatar projects were starting up (**Exhibit 12**).

Exhibit 12
Growth in Australian LNG Output



Source: Bernstein analysis

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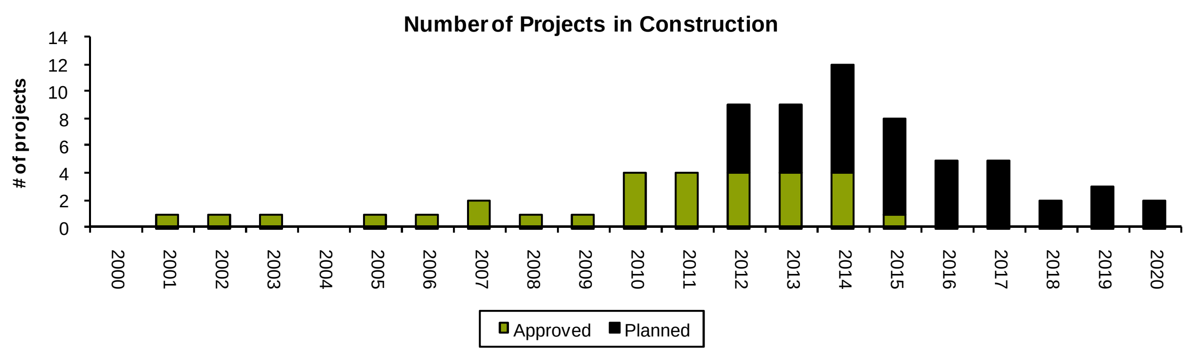
With limitations in labor and costs, we think that 100mtpa of production may be feasible by 2020, but not more. If all projects approved and in planning were to be developed as per the schedule we have outlined above, then Australia could have 12 LNG projects running concurrently which would be a big stretch in terms of the number of people required, given that a large scale LNG project requires 5000 workers. In 2007 directly employment in the oil and gas industry in Australia was 15,000 people in total. The implication is that not all projects under consideration will be developed over the next 10 years and investors should expect setbacks for some companies over the coming few years in terms of their expectations.

Exhibit 13
Number of Projects in Construction



Source: Bernstein analysis

Marginal Cost of LNG development

Despite the growth potential of Australian LNG, costs are becoming a problem. Australia is the marginal producer of LNG globally which the highest cost projects which a being developed globally – with the exception of Sakhalin LNG (**Exhibit 14**).

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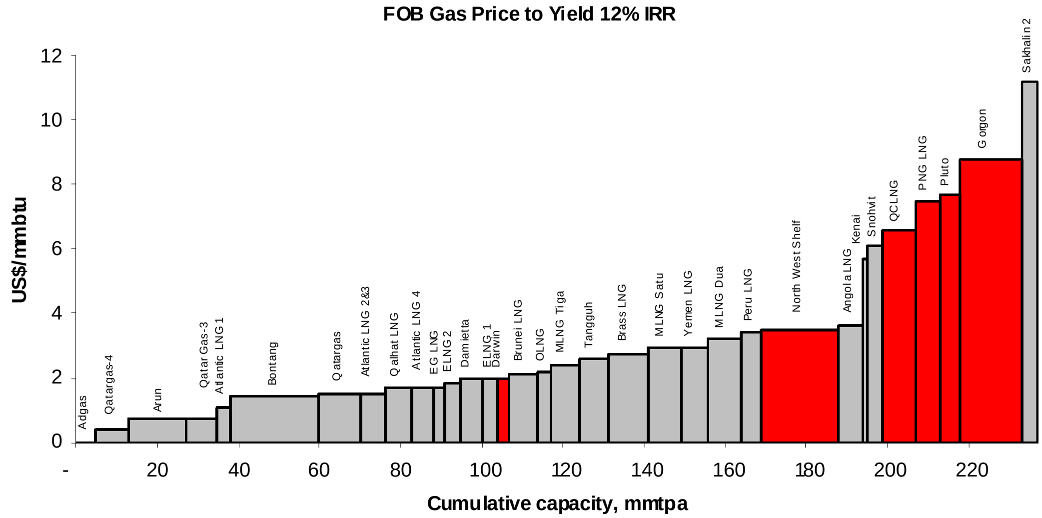
Exhibit 14

Australian LNG Projects Have the Highest Cost of Supply Globally



Source: Wood Mackenzie, Bernstein estimates

Three things are driving costs higher. Firstly, upstream costs are increasing. According to the IHS CERA Index, upstream costs have more than doubled over the past 10 years (**Exhibit 15**). Moreover, the cost for construction of LNG plants has increased from $400/ton to over the $1000/ton of capacity (**Exhibit 16**). Additionally the strong Australian dollar has not helped. Over the past 10 years the Australian dollar has doubled in value against the US dollar and is now trading at parity (**Exhibit 17**).

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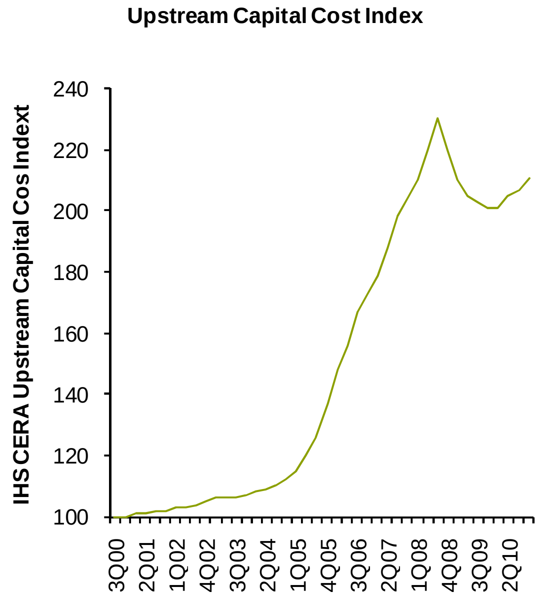
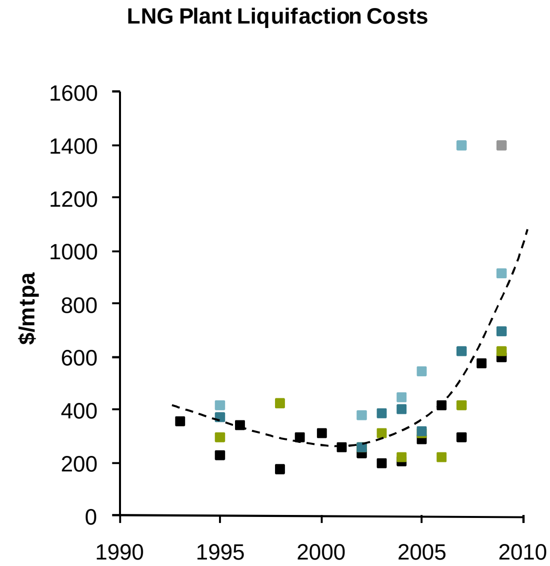
Exhibit 15
Upstream Capital Cost Index



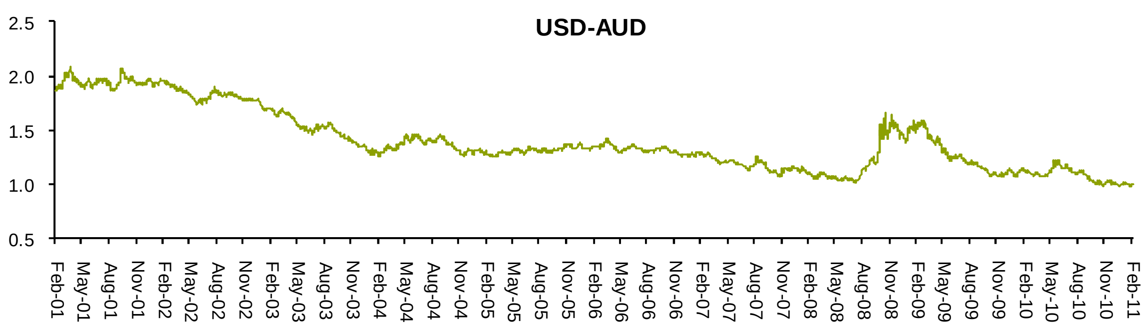
Source: IHS CERA

Exhibit 16
LNG Plant Liquifaction Costs



Source: Corporate Reports

Exhibit 17
USD-AUD Exchange Rate



Source: Bloomberg

The impact of these factors has had a significant impact on project costs. Pluto 1 project which was sanctioned in 2007 has increased from a total all in cost of AUD12bn to AUD 14bn. In USD terms the project has increased over 35% from $10.2bn to $13.9bn eroding a significant chunk of value for shareholders (**Exhibit 18**).

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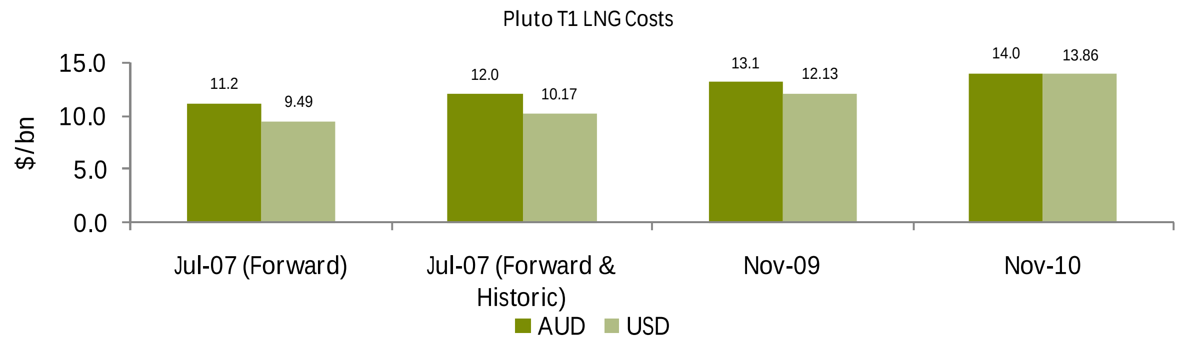
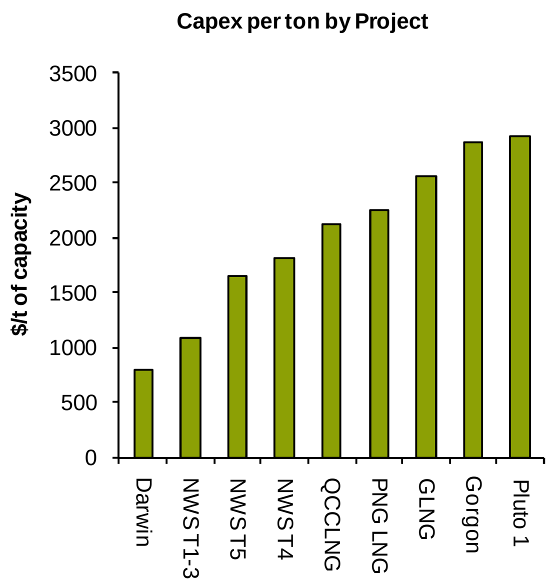
Exhibit 18
Pluto T1 LNG Costs



Source: Bernstein analysis

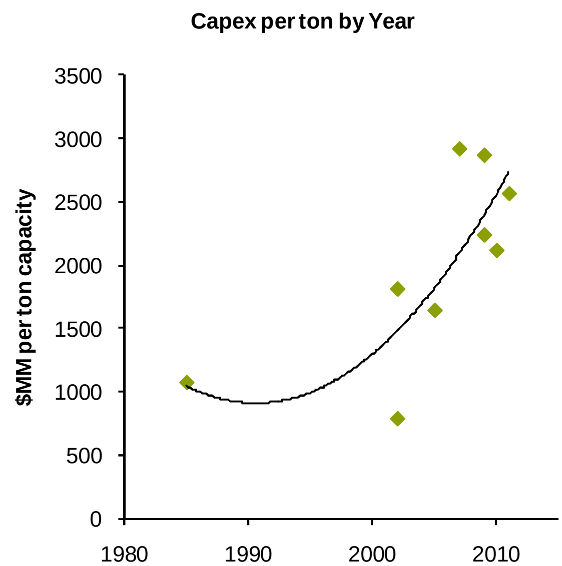
On a capex per ton basis the cost of Australian LNG projects has effectively trebled over the past 10 years. Darwin LNG project developed in the early part of last decade was less that US$1000/ton while Pluto LNG and Gorgon LNG are close to US$3000/ton (**Exhibit 19**). More recent projects such as QCLNG, PNG LNG and Gorgon have been sanctioned on costs of US$2000 - $2500/ton although with the possibility of cost inflation between now and projects start up the risk is that project costs will increase further. The sharp rise in cost inflation is shown when plotting costs against year of project sanction, suggesting that that costs will continue to rise (**Exhibit 20**).

Exhibit 19
Capex per ton by Project



Source: Bernstein analysis

Exhibit 20
Capex per ton by Year



Source: Bernstein analysis

Future LNG projects which are competing for sanction this year are Icthys, Pluto expansion, and Wheatstone. While Pluto 2 is likely to be the most competitive given the pre-existing site Woodside have yet to establish the resource base for Pluto 2. Wheatstone and Icthys look likely to be sanctioned on costs of

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close to $3000/ton (**Exhibit 21**). These projects need an oil price of $80/bbl real to be justified economically – which is close to the current long run marginal cost (**Exhibit 22**).

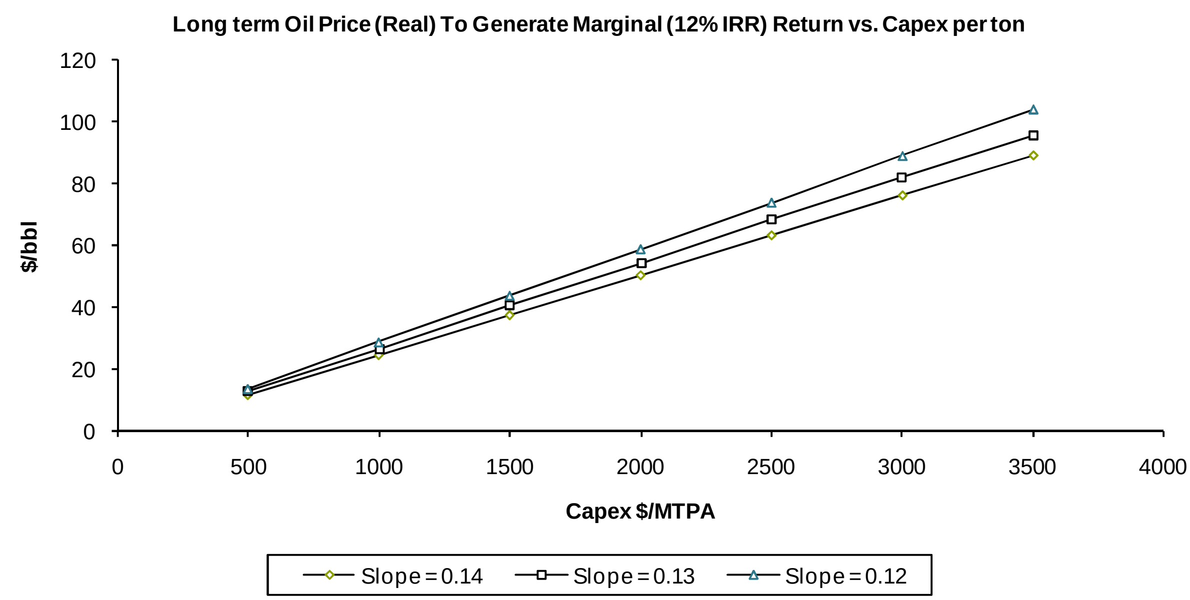
Exhibit 21
Australian LNG Project Schedules and Costs

Project	FID	Start Up	MTPA Capacity	USD $bn Total	$/MTPA Total
NWS T1-3	1985	1989	7.7	8.3	1078
NWS T4	2002	2004	4.3	7.8	1814
Darwin	2002	2006	3.4	2.7	794
NWS T5	2005	2008	4.8	7.9	1646
Pluto 1	2007	2011	4.8	14.0	2917
Gorgon	2009	2014	15	43.0	2867
PNG LNG	2009	2014	6.7	15.0	2239
QCCLNG	2010	2014	8.5	18.0	2118
GLNG	2011	2015	7.8	20.0	2564
Icthys	2011	2016	8.4	25.0	2976
Wheatstone	2011	2017	8.6	25.0	2907
Pluto 2	2011	2015	4.3	12.0	2791
PNG LNG T3	2013	2017	3.3	4.0	1212
Browse	2013	2018	12.0	35.0	2917

Note for GLNG and QCLNG additional $4bn has been added for post-FID drilling
All costs for projects beyond 2011 are Bernstein estimates

Source: Bernstein analysis

Exhibit 22
Long term oil price



Source: Bernstein analysis

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LNG Earnings Estimates

Our earnings estimates for Woodside are outlined in **Exhibit 23**. Focus will be an update on the key Pluto 1 project and Pluto train 2. We do not expect any revision in cost beyond the A$14bn and schedule for start up of Q3 2010. Key for investors will be an update on Pluto Train 2. We expect the company to give additional guidance on the most recent exploration wells and status of their exploration programme for Pluto 2. While it is likely to be too early to declare sufficient gas for Pluto 2, we expect the company to re-iterate positive guidance on FID for 2011 as still on track. An upside would be positive news flow on Pluto 3 and the potential for a deal around third party gas to supply this additional train.

Exhibit 23
Woodside FY 2010 results preview

Woodside - Income Statement *US$M, unless otherwise noted*	**2009**	**1H10**	**2H10E**	**2010E**	**YoY**
UPSTREAM METRICS					
Oil Production (kbpd)	101.2	82.7	89.2	86.0	(15%)
LPG production (kbpd)	7.3	6.5	6.9	6.7	(9%)
Gas Production (mmscfd)	681.6	639.8	644.1	641.9	(6%)
Total (kboepd)	**222.1**	**195.9**	**203.4**	**199.6**	(10%)
FINANCIALS					
Revenue	3,397	2,102	2,091	4,193	23%
Royalty, opex, exploration expense	(1,020)	(590)	(757)	(1,347)	32%
EBITDA	**2,377**	**1,512**	**1,334**	**2,846**	20%
DD&A	(741)	(374)	(346)	(720)	(3%)
EBIT	**1,636**	**1,138**	**988**	**2,126**	30%
Net Interest Expense	(12)	22	(96)	(74)	494%
Other gains and losses	691	(44)	305	261	
Profit Before Income Tax	**2,314**	**1,116**	**1,197**	**2,313**	(0%)
Income Tax Expense	(732)	(224)	(442)	(666)	(9%)
PRRT	(72)	(115)	(116)	(231)	221%
Minority interest	5	(2)	2	0	
One-time tax impact	(27)	38	(38)	0	
Clean NI	**1,488**	**813**	**603**	**1,416**	(5%)
Non-recurring items, net of tax	(64)	88	(88)	0	
Reported NI	**1,424**	**901**	**515**	**1,416**	(1%)
EPS (AUD)					
Basic EPS (GAAP)	2.02	1.18	0.66	1.83	(22%)
Basic EPS (adjusted)	2.12	1.06	0.77	1.83	(21%)
Diluted EPS (GAAP)	2.02	1.18	0.66	1.83	(22%)
Duiluted EPS (adjusted)	2.12	1.06	0.77	1.83	(21%)
DPS (AUD)	1.10	0.50	0.50	1.00	(19%)

Note: 2009 results converted from AUD to USD for comparison

Source: Company reports, Bernstein estimates

Our key earnings for Oil Search are shown in **Exhibit 24**. Focus will be PNG LNG project status, an update on appraisal of their appraisal timing on Hides gas field for PNG LNG T3. While we expect Oil Search to confirm project schedule and costs remain on track, the key question will be whether Hides appraisal drilling will take place this year on next. A decision to accelerate drilling into this year would be a positive for the stock. In addition we expect more clarity on the strategic review which is taking place and a re-

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emphasizing of the exploration potential of PNG. We expect more details on the offshore exploration potential where Oil Search have acquired additional acreage with the aim of developing a fourth Train independent of the PNG LNG project.

Exhibit 24
Oil Search FY 2010 results preview

Oil Search - Income Statement *US$M, unless otherwise noted*	**2009**	**1H10**	**2H10E**	**2010E**	**YoY**
UPSTREAM METRICS					
Oil Production (kbpd)	19.7	19.3	17.8	18.5	(6%)
Gas Production (mmscfd)	15.1	15.2	14.1	14.7	(3%)
Total (kboepd)	**22.2**	**21.8**	**20.2**	**21.0**	(6%)
FINANCIALS					
Total Revenue	512.2	276.6	306.9	583.5	14%
Royalty, opex, exploration expense	(183.2)	(148.4)	(90.9)	(239.3)	31%
EBITDA	**328.9**	**128.2**	**216.0**	**344.2**	5%
DD&A	(100.7)	(22.5)	(31.1)	(53.6)	(47%)
EBIT	**228.2**	**105.7**	**184.9**	**290.6**	27%
Net Interest Income (expense)	(3.3)	(1.2)	(0.3)	(1.5)	(56%)
Pre tax income	**224.9**	**104.5**	**184.7**	**289.2**	29%
Reported Tax	(106.2)	(55.6)	(94.8)	(150.4)	42%
One-time tax impact	(19.1)	0.0	0.0	0.0	
Clean NI	**99.6**	**49.0**	**89.8**	**138.8**	39%
Non-recurring items, net of tax	34.1	3.9	(3.9)	0.0	
Reported NI	**133.7**	**52.9**	**85.9**	**138.8**	4%
EPS (US cents)					
Basic EPS (GAAP)	11.5	4.1	6.6	10.7	(7%)
Basic EPS (adjusted)	8.6	3.8	6.9	10.7	24%
Diluted EPS (GAAP)	11.5	4.0	6.6	10.6	(7%)
Duiluted EPS (adjusted)	8.5	3.7	6.9	10.6	24%
DPS (US cents)	4.0	2.0	2.0	4.0	0%

Source: Company reports, Bernstein estimates

Our earnings estimate for Santos is shown in **Exhibit 25**. Now that Santos has delivered on GLNG Trains 1 and 2 the question is what is next for investors? While it is too early to be talking about Train 3, it is likely that Santos will be looking at expansion possibilities beyond Trains 1 & 2, in the same way as BG are reviewing QCLNG. This is for later however, and for the time being the focus will be on delivery of the GLNG project. Unlike Woodside and Oil Search where there are fairly clear catalysts this year, we do not for-see any significant catalysts this year other than commodity prices. Still, if Woodside and Oil Search disappoint on their expansion plans, Santos has very little downside from here and may benefit from the misfortune of the others.

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Exhibit 25
Santos FY 2010 results preview

Santos - Income Statement *AUD M, unless otherwise noted*	**2009**	**1H10**	**2H10E**	**2010E**	**YoY**
UPSTREAM METRICS					
Oil Production (kbpd)	31.1	25.3	25.0	25.2	(19%)
LPG production (kbpd)	5.6	4.6	5.2	4.9	(12%)
Gas Production (mmscfd)	674.4	621.8	656.8	639.3	(5%)
Total (kboepd)	**149.0**	**133.5**	**133.5**	**136.6**	(8%)
FINANCIALS					
Total revenue	2,251	1,134	1,150	2,284	1%
Royalty, opex, exploration expense	(1,107)	(530)	(515)	(1,045)	(6%)
EBITDA	**1,144**	**604**	**635**	**1,239**	8%
DD&A	(612)	(277)	(321)	(598)	(2%)
EBIT	**532**	**327**	**314**	**641**	20%
Net Interest Expense	(13)	10	(17)	(7)	(47%)
Net Exchange Gains (losses)	(28)	5	(5)	0	
Other income and expenses	(20)	(49)	64	15	
Profit Before Income Tax	**471**	**293**	**356**	**649**	38%
Income tax	(205)	(81)	(123)	(204)	(1%)
PRRT	(78)	(14)	(53)	(67)	(14%)
One-time tax impact	74	0	0	0	
Clean NI	**262**	**198**	**180**	**378**	45%
Pref dividends	(28)	0	(28)	(28)	0%
Clean NI to common	**234**	**198**	**152**	**350**	50%
Non-recurring items, net of tax	172	0	0	0	
Reported NI to common	**406**	**198**	**152**	**350**	(14%)
EPS (AUD)					
Basic EPS (GAAP)	0.52	0.24	0.18	0.42	(18%)
Basic EPS (adjusted)	0.30	0.24	0.18	0.42	42%
Diluted EPS (GAAP)	0.52	0.24	0.18	0.42	(18%)
Diluted EPS (adjusted)	0.30	0.24	0.18	0.42	42%
Dividend Per Share (A$)	0.42	0.22	0.20	0.42	0%

Source: Company reports, Bernstein estimates

NAV Sensitivity to Oil

Our NAV valuation sensitivities are outlined in **Exhibit 26**. Between the Australian LNG names, Oil Search has the most upside based on core NAV valuation, showing upside under both long-term oil prices assumptions of $85 (real) and $100 (real). Based on upside NAV valuation, Woodside has the most upside, with upside coming mostly from Pluto T2 and T3 projects, followed by Oil Search, with upside on top of their core NAV coming from PNG LNG T3.

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Exhibit 26
NAV Sensitivity to Oil

	Woodside		Santos		Oil Search	
AUD per share	$85 Oil	$100 Oil	$85 Oil	$100 Oil	$85 Oil	$100 Oil
Current share price	42.3	42.3	14.0	14.0	6.7	6.7
Core NAV/share	35.5	46.8	12.9	16.4	7.1	8.4
% Upside	-16%	11%	-8%	17%	6%	25%
Upside NAV/share	53.0	70.9	15.0	19.1	8.5	10.2
% Upside	25%	68%	7%	37%	28%	53%

Source: Bernstein analysis

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Valuation Methodology

For Oil Search, Woodside and Santos, we believe an NAV approach is appropriate given a significant portion of their values are attached to future LNG projects. In calculating the NAV, we have assumed a long term oil price of $85 (real) (**Exhibit 27**and **Exhibit 29**).

Exhibit 27
Oil Search NAV

Oil Search NAV - Long Term Oil Price of $85/bbl			Net NPV AUD MM	Risked AUD/share
Net cash			**305**	**0.23**
PNG		NPV/boe (USD)		
Kutubu Area		29.4	635	0.49
Moran		16.0	366	0.28
Gobe		32.5	21	0.02
Hides GTE Project		5.0	58	0.04
SE Mananda		32.1	31	0.02
Total in-production			**1,112**	**0.86**
PNG LNG T1&T2		12.6	7,391	5.69
Total development			**7,391**	**5.69**
Contingent Resource			**356**	**0.27**
Core NAV			**9,164**	**7.05**
	Equity	Risk		
PNG LNG T3 (2017)	29.0%	75%	2,536	1.46
PNG LNG T4 (2018)	29.0%	0%	2,049	0.00
Total upside			**4,585**	**1.46**
Total NAV			**13,749**	**8.5**

Source: Bernstein Est.

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Exhibit 28
Woodside NAV

Woodside NAV - Long Term Oil Price of $85/bbl			Net NPV AUD MM	Risked AUD/share
Net cash/(debt)			(3,141)	(4.03)
Australia		NPV/boe (USD)		
NWS LNG		19.3	9,989	12.80
Domestic Oil		25.7	3,260	4.18
Domestic Gas		7.8	1,049	1.34
Algeria		4.9	37	0.05
US		19.8	261	0.33
Total in-production			**14,595**	**18.71**
Pluto T1 (2011)		16.7	14,796	18.97
Total development			**14,796**	**18.97**
Contingent Resources		2.0	1,437	1.84
Core NAV			**27,687**	**35.49**
	Equity	Risk		
Pluto T2 (2014)	75.0%	100%	7,565	9.70
Pluto T3 (2015)	50.0%	50%	4,026	2.58
Browse (2017)	50.0%		3,354	4.30
Sunrise (2019)	33.0%		734	0.94
Total upside			**15,679**	**17.52**
Total NAV			**43,366**	**53.0**

Source: Bernstein Est.

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Exhibit 29
Santos NAV

Santos NAV -Long Term Oil Price of $85/bbl			Net NPV (AUD MM)	Risked (AUD/share)
Net cash			**1,570**	**1.8**
Australia		NPV/boe (USD)		
Cooper Basin		8.8	1,373	1.6
Bayu-Undan		6.9	517	0.6
John Brookes		7.6	493	0.6
Barrow Island		18.3	202	0.2
Other Australia		7.2	753	0.9
Indonesia (Maleo/ Oyong)		5.8	156	0.2
Total in-production			**3,494**	**4.0**
PNG LNG		14.5	3,440	3.9
GLNG T1&T2		3.8	1,500	1.7
Australia		8.6	852	1.0
Indonesia (Pelung, Wortel)		5.8	156	0.2
Vietnam (Chim Sao, Dua)		10.4	220	0.3
Total development			**6,168**	**7.1**
Core NAV			**11232.0**	**12.9**
	Equity	Risk		
PNG LNG T3 (2017)	13.5%	75%	1,180	1.0
GLNG (Add 0.8mpta)	30.0%	100%	650	0.7
Bonaparte LNG	40.0%	20%	1,746	0.4
Total upside			**3,576**	**2.2**
Total NAV			**14,808**	**15.0**

Source: Bernstein Est.

Risks

Oil Search: Risks to our Oil Search price target include a decline in oil prices given the high correlation and beta with oil, or failure to progress their PNG LNG project in a timely way due to political or social unrest, for which a significant amount of value is already embedded within the share price. Given the position of XOM in the project we believe that cost overruns and delays will be avoided.

Woodside: Risks to our Woodside price target include a decline in oil price as given the high correlation and beta with oil or delays in the construction of Pluto 1. Upside risk will be a major discovery in the Carnarvon basin over the next 3 months which transforms their ability to deliver the Pluto 2 LNG project.

Santos: Risks to our Santos price target include a significant change in oil prices given the high correlation and beta with oil or delays to its GLNG project following declaration of FID. The possibility of cost overruns or delays on this project also represents the most significant risk.

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12-Month Rating History as of 02/14/2011

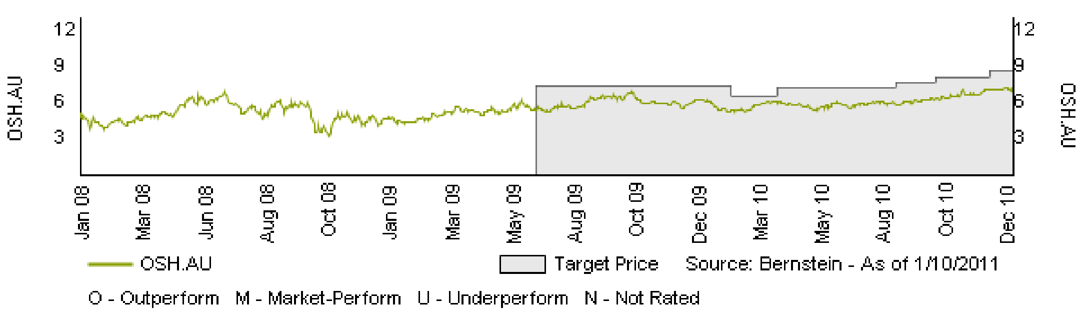
Ticker	Rating Changes		
OSH.AU	O (IC) 06/29/09		
STO.AU	O (RC) 07/12/10	M (RC) 04/09/10	O (IC) 06/29/09
WPL.AU	O (RC) 11/17/09		

Rating Guide: O - Outperform, M - Market-Perform, U - Underperform, N - Not Rated
Rating Actions: IC - Initiated Coverage, DC - Dropped Coverage, RC - Rating Change

OSH.AU / Oil Search Ltd

Date	Rating	Target(AUD)
06/29/09	O(IC)	7.30
02/12/10	O	6.50
04/09/10	O	7.10
08/26/10	O	7.50
10/12/10	O	8.00
12/15/10	O	8.50

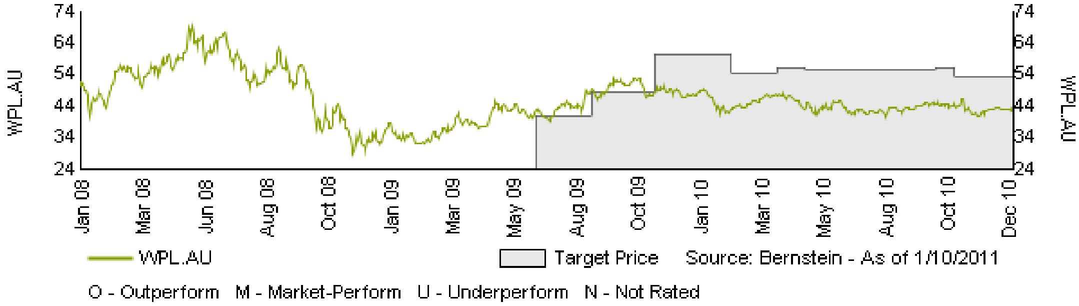
IC - Initiated Coverage



WPL.AU / Woodside Petroleum Ltd

Date	Rating	Target(AUD)
06/29/09	M(IC)	40.80
09/04/09	M	48.00
11/17/09	O	60.00
02/12/10	O	54.00
04/09/10	O	56.00
05/11/10	O	55.00
10/12/10	O	56.00
11/03/10	O	53.00

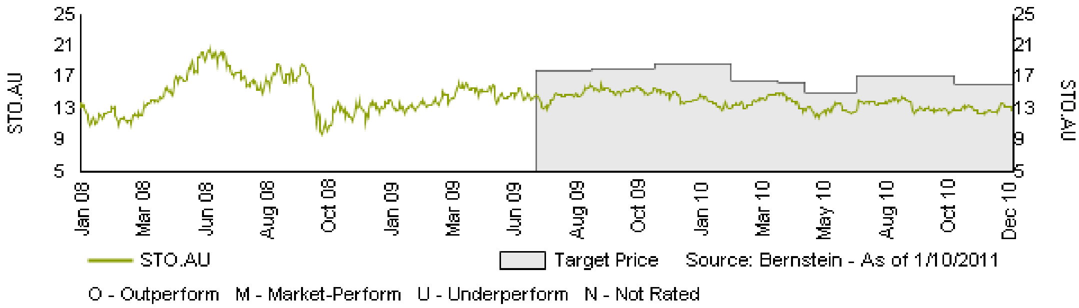
IC - Initiated Coverage



STO.AU / Santos Ltd

Date	Rating	Target(AUD)
06/29/09	O(IC)	17.70
09/04/09	O	18.00
11/17/09	O	18.60
02/12/10	O	16.50
04/09/10	M	16.30
05/11/10	M	15.00
07/12/10	O	17.00
11/03/10	O	16.00

IC - Initiated Coverage



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