Santos

17 August 2022

Santos announces Pikka FID and net-zero project plans

Highlights

- Expected production 80,000 barrels a day gross with first oil anticipated in 2026
- 2P reserves 397 million barrels gross pre-royalties
- Capex US$1.3 billion Santos-share
- ~19% IRR at US$60 long-term oil price
- Santos committed to a net-zero project (scope 1 and 2, equity share)
- Strong support from key stakeholders, including the State and landowners

Santos, as operator of the Pikka Unit joint venture, today announced a final investment decision (FID) has been taken to proceed with the US$2.6 billion gross (US$1.3 billion Santos-share) Pikka Phase 1 oil project located on the North Slope of Alaska.

Pikka Phase 1 is expected to produce 80,000 barrels a day of oil gross with first oil anticipated in 2026.

The project has strong fundamentals, is located in a world-class oil producing province with significant existing infrastructure, has low unabated emissions intensity and is supported by key stakeholders, including the State of Alaska, the North Slope Borough, the landowner company Kuukpik Corporation and the Arctic Slope Regional Corporation (ASRC).

Taking FID on Pikka Phase 1 is consistent with Santos' goal of achieving net-zero (scope 1 and 2, equity share) by 2040. Santos is committed to delivering a net-zero project (scope 1 and 2, equity share) and has entered into Memorandums of Understanding with Alaska Native Corporations to deliver carbon offset projects, including a Strategic Alliance with ASRC Energy Services, a wholly-owned subsidiary of ASRC, on leading technology development for carbon solutions in the Arctic.

Alaska has a rich and proud oil and gas history – welcoming the jobs, investment and community development the industry provides. Pikka Phase 1 represents one of the lowest-cost and lowest unabated emissions intensity new oil projects in the region.

Santos is focussed on local procurement and local employment as part of the project, with 98 per cent of current employees living in Alaska. Phase 1 of the project is expected to create more than 500 jobs and construction of the project will deliver approximately 2,600 jobs.

The Pikka Phase 1 project represents compelling value for Santos shareholders given its robust economics and strong local stakeholder support.

Santos Managing Director and Chief Executive Officer Kevin Gallagher said Pikka Phase 1 is the right project at the right time in the right location.

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"Global oil and gas markets are seeing increased volatility and countries are looking to diversify their supply sources away from Russia, which according to the International Energy Agency, currently produces 18 per cent of the world's gas and 12 per cent of its oil," Mr Gallagher said.

"Low-carbon oil projects like Pikka Phase 1 respond to new demand for OECD supply and are critical for global and United States energy security, that has been highlighted since the Russian invasion of Ukraine.

"Santos has emission reduction plans to achieve scope 1 and 2 net-zero emissions by 2040 and in-line with that commitment, Pikka will be a net-zero project.

"The project will add further diversification to our portfolio and reduces geographic concentration risk.

"Pikka Phase 1 will execute a responsible development plan with a small surface footprint and utilise existing infrastructure, including the Kuparuk transportation pipeline and the Trans-Alaska pipeline system.

"We have a world-class team with a rich history of successfully carrying out work on the North Slope. With approximately 90 per cent of project spend within North America minimising supply chain risk and civils work already completed, the project is well positioned for execution."

Santos has a 51% interest in the Pikka Unit. The remaining interest is held by Repsol.

Pikka Phase 1 key metrics

Development plan	Optimised using existing pipeline capacity, single small footprint drilling pad and electrified field operations
First oil	2026
Nameplate capacity	80,000 barrels of oil per day gross
2P Reserves	397 mmbbl gross pre-royalties 165 mmbbl Santos-share at 51% interest (net of 18.67% royalties)
Capex to nameplate capacity	US$2.6 billion gross (2022 real) US$1.3 billion Santos-share at 51% interest
Annual opex in production	~US$150 million gross
Forecast IRR	~19% @ US$60 per barrel long-term oil price (2022 real)
Lifecycle breakeven oil price	~US$40 per barrel

This ASX announcement was approved and authorised for release by Kevin Gallagher, Managing Director and Chief Executive Officer.

Santos prepares its petroleum reserves and contingent resources estimates in accordance with the 2018 Petroleum Resources Management System (PRMS) sponsored by the Society of Petroleum Engineers (SPE). Pikka Phase 1 reserve estimates are based on Santos technical evaluation and have been determined using combination of deterministic and probabilistic methods. The Pikka Phase 1 project will develop oil from 32 leases within the greater Pikka Unit. The reference point is the entry to the common carrier Pikka pipeline. Pikka Phase 1 2P undeveloped oil reserves are estimated at 165 mmbbl Santos-share at 51% interest and net of 18.67% royalties.The reserves and resources information in this release is based on, and fairly represents, information and supporting documentation prepared by, or under the supervision of, Mark Ireland, who is a full-time employee of Santos and is a member of the SPE. Mr Ireland meets the requirements of a QPRRE and is qualified in accordance with ASX Listing Rule 5.41.

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