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TO: ASX Market Announcements
ASX Limited

FROM: Company Secretary

DATE: 6 March 2012

SUBJECT: **Impact of Unconventional Gas on Australian LNG Supply Presentation**

Please find attached a presentation (Impact of Unconventional Gas on Australian LNG Supply) which will be presented by Martyn Eames at the LNG Supplies for Asian Markets Conference in Singapore today.

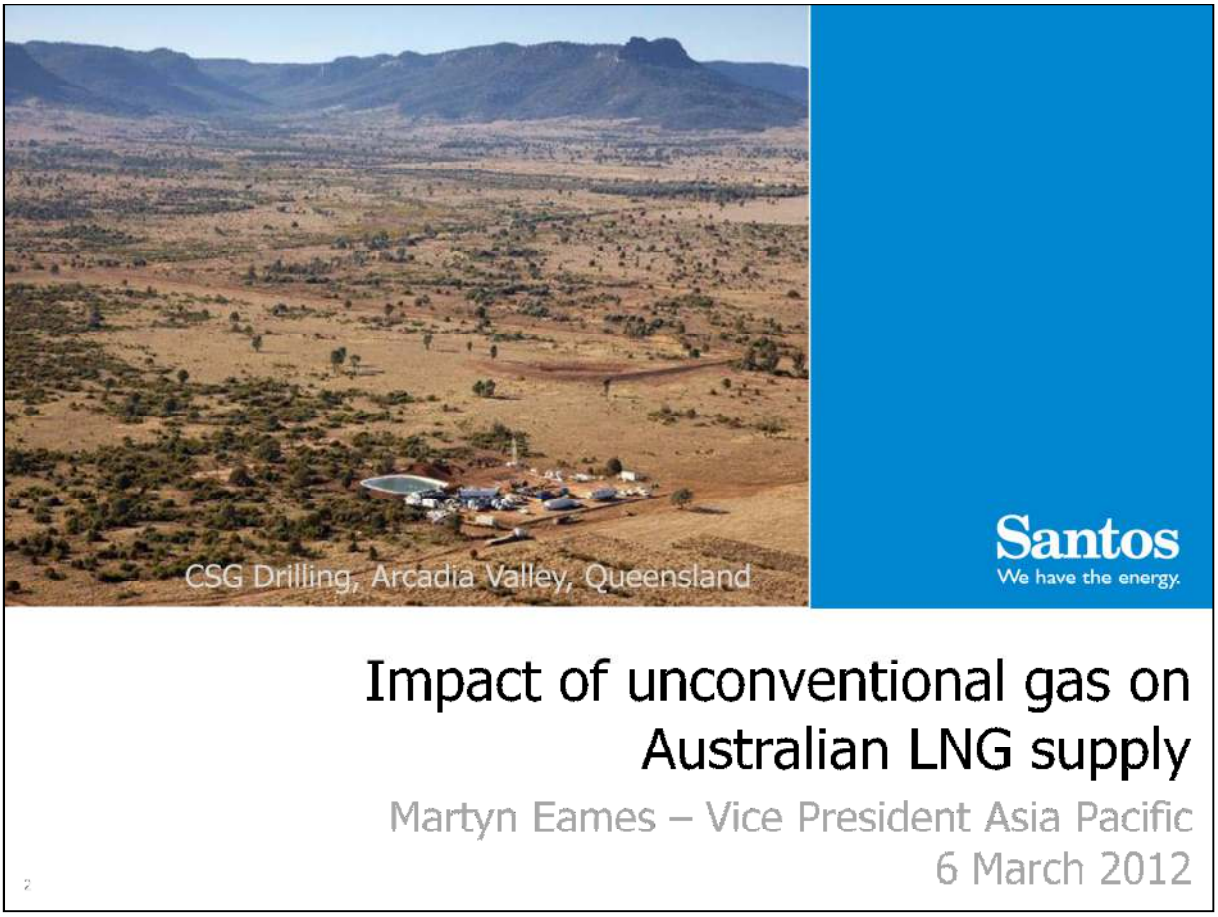
David Lim
Company Secretary

Disclaimer and Important Notice

This presentation contains forward looking statements that are subject to risk factors associated with the oil and gas industry. It is believed that the expectations reflected in these statements are reasonable, but they may be affected by a range of variables which could cause actual results or trends to differ materially, including but not limited to: price fluctuations, actual demand, currency fluctuations, geotechnical factors, drilling and production results, gas commercialisation, development progress, operating results, engineering estimates, reserve estimates, loss of market, industry competition, environmental risks, physical risks, legislative, fiscal and regulatory developments, economic and financial markets conditions in various countries, approvals and cost estimates.

All references to dollars, cents or $ in this document are to Australian currency, unless otherwise stated.

Santos
We have the energy.



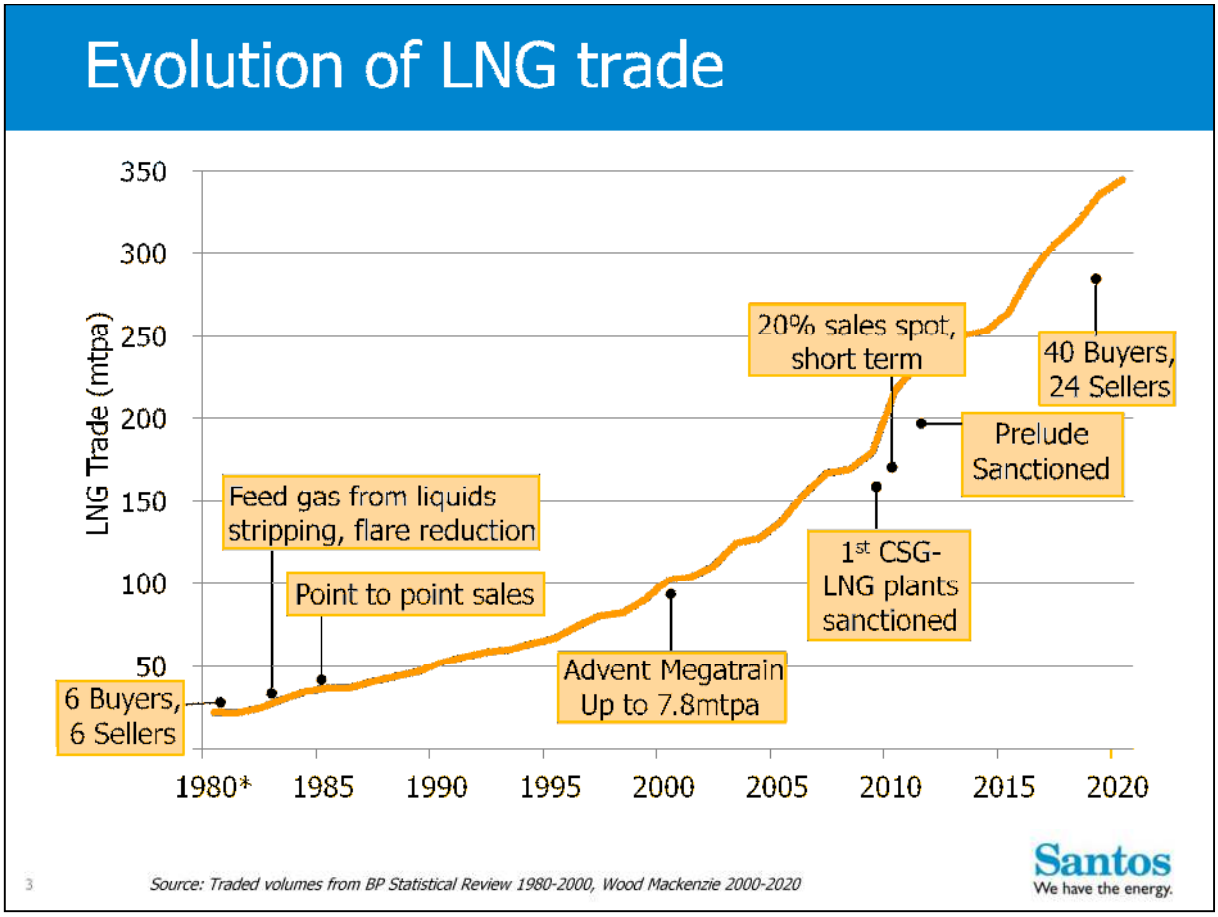
Good morning everyone and thank you for your kind introduction.

Every week from across the globe there are about 1.3 million new people moving to cities. That's around 70 million people per year, decade after decade migrating from rural areas to cities. This is the largest movement of people to cities in human history

As millions more move into cities, they are living in much closer proximity. That proximity, by necessity, requires the use of easily transported lower carbon intensity fuels.

That largely favours the use of natural gas and a very significant proportion of imported gas will be coming from Australia, because of its abundant, available and accessible reserves of both conventional and unconventional gas.

Today, I will focus in particular on how the development of Australia's unconventional gas resources will help capture a significant proportion of future growth in LNG demand.

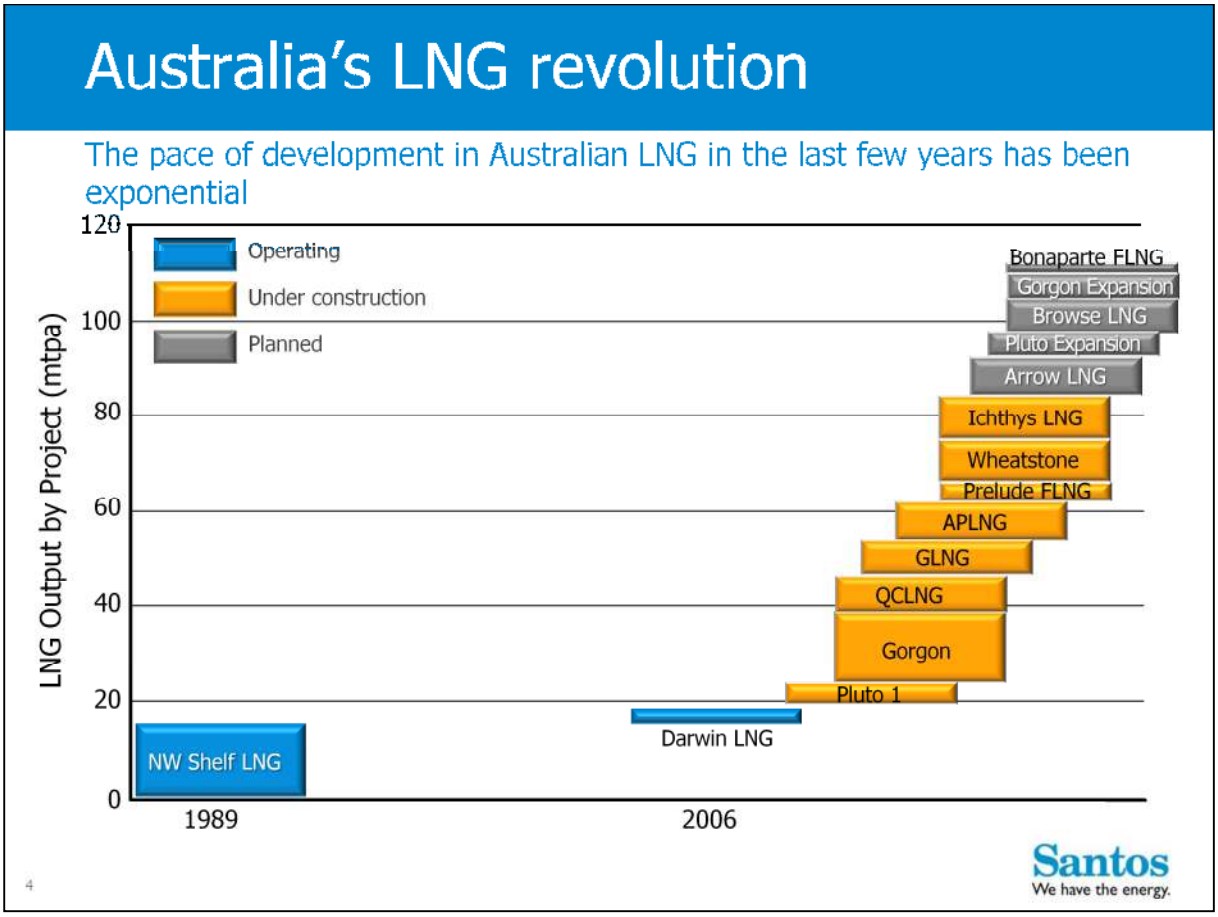


The growth of the LNG industry over the last 30 years has been remarkable – and has transformed the energy markets of the 22 countries who rely on liquefied natural gas for at least a share of their fuel mix.

Yet, from its origins in Algeria and Alaska, by 1980 LNG still only represented just 2% of global gas consumption.

By 2010, this had risen to 10% of global gas consumption and by 2020, assuming a compound annual growth rate of almost 5%, LNG shipments are expected to top 340 million tonnes per year.

Australia will play an important role in meeting this demand and is currently undergoing an evolution of its own.

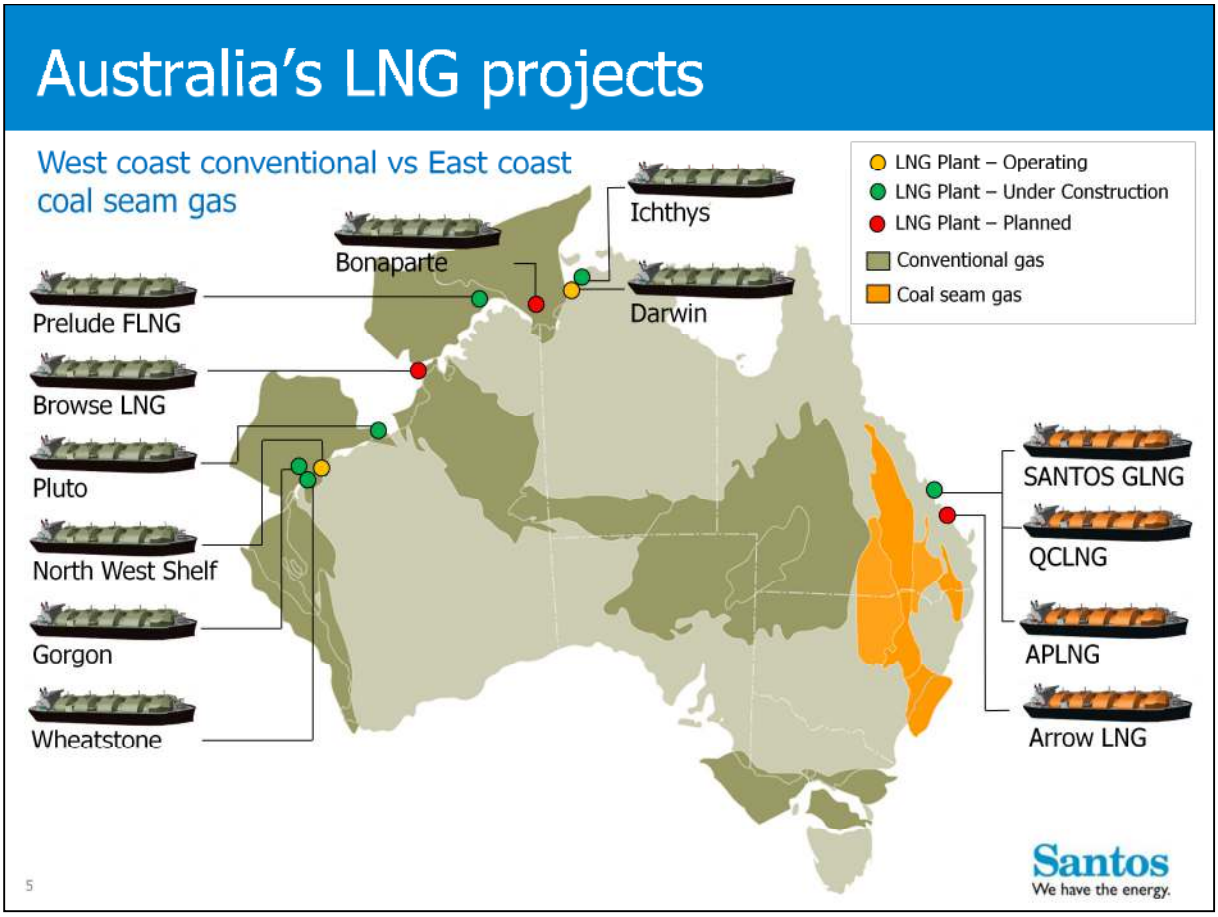


As you can see from this timeline, the seemingly overnight growth in Australian LNG has truly been extraordinary!

If we put Darwin LNG aside for the moment, then for over 20 years, Australian LNG was a one horse race.

Turning the clock to 2018, another 8 projects under construction are expected to be online. All other things being equal, Australia is predicted to become the world's largest exporter of LNG.

Of course Australia has more projects in the pipeline as you can see here but not all the planned LNG projects will be developed – in Australia or elsewhere. However, Australia's significance in the global LNG marketplace is clearly expanding.

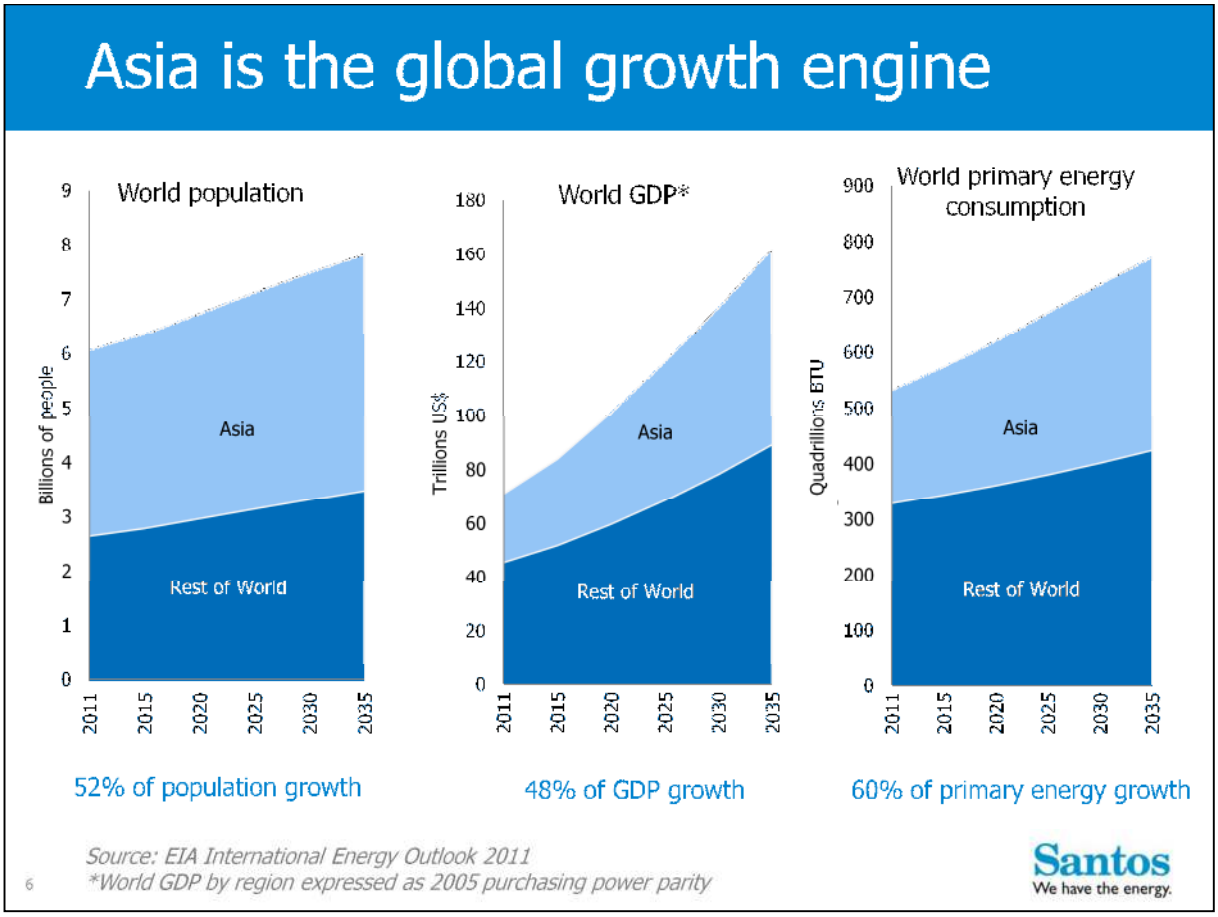


Here is another view of the same data that shows that the story of Australia's LNG industry is one of conventional LNG projects to the west and the pioneering Coal Seam Gas to LNG projects over to the east.

The North West Shelf project is, if you like, the grandfather of the Australian LNG industry and has been operating for over 20 years. The other operational LNG facility is Darwin LNG, in which Santos is a partner.

Right now, Australia has about $250 billion dollars worth of LNG projects on the drawing board.

So what has driven this seemingly overnight investment in Australian LNG?



We see three key factors.

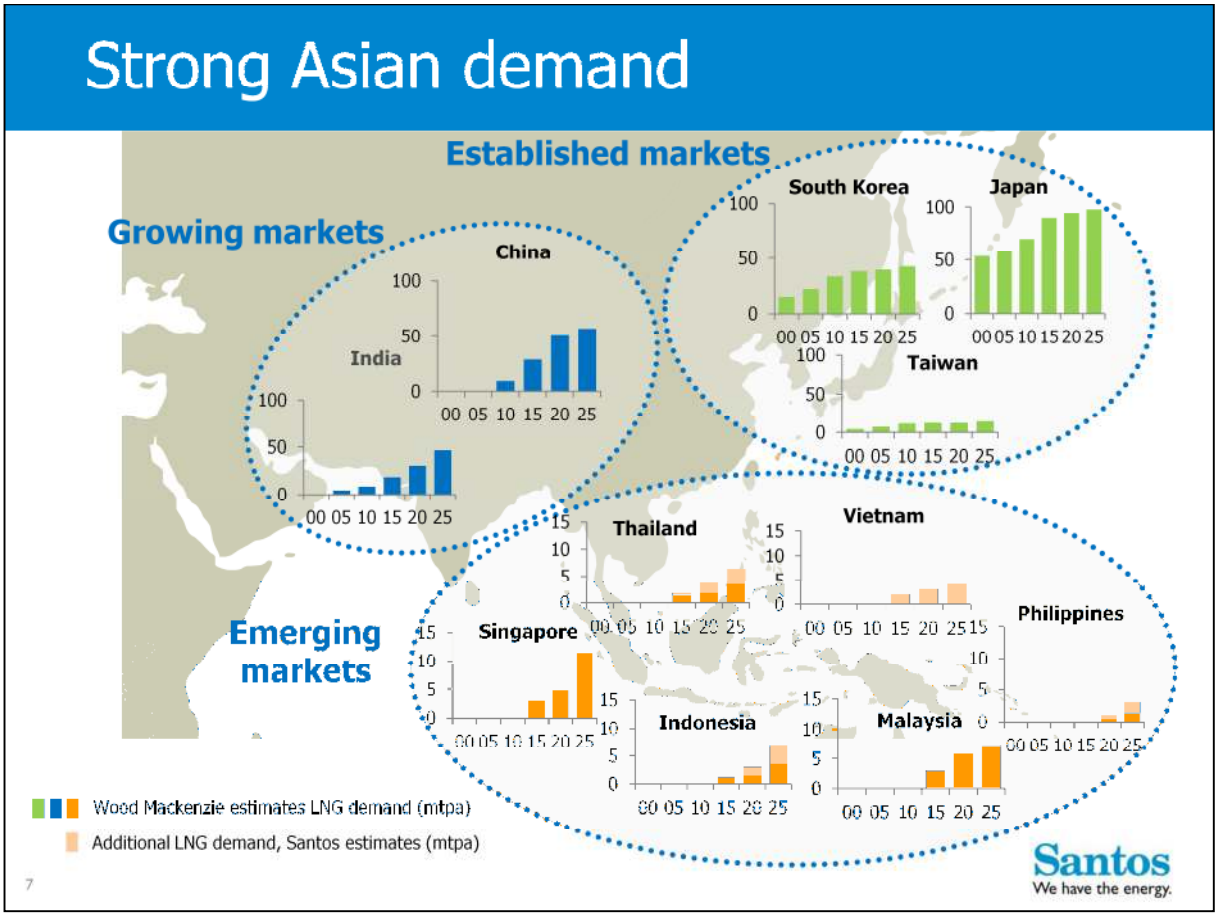
First of all, strong demand. And on just about every measure, the driver for future LNG demand comes from Asia.

These forecasts are from the Energy Information Administration, which is the statistical arm of the US Department of Energy.

Between now and 2035, Asia is expected to account for:

- 52% of world population growth
- 48% of world GDP growth
- And a staggering, 60% of world primary energy consumption growth.

I'd like to now expand on how we view Asia's growing energy demand.



This slide shows you how we look at the Asian LNG marketplace.

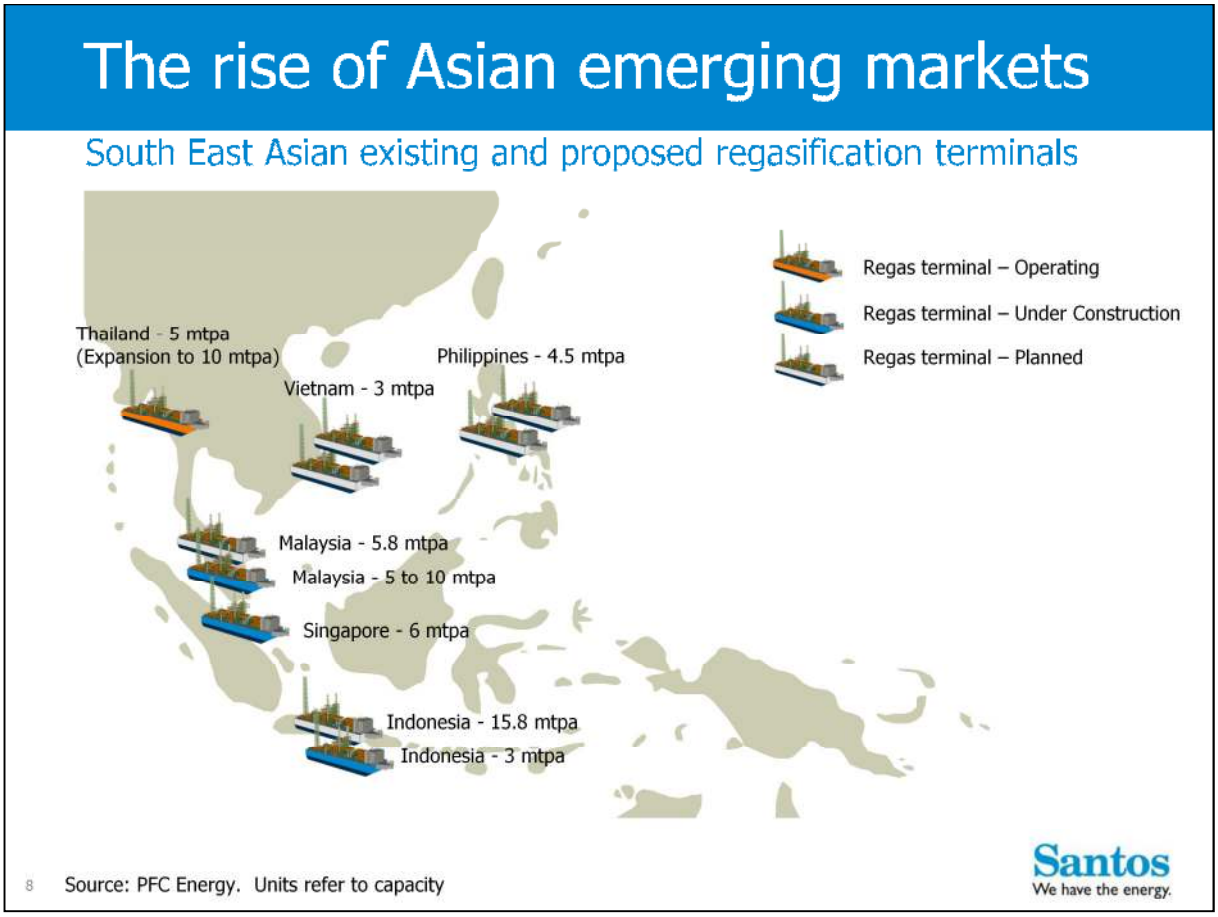
The first group is the Established LNG markets of Japan, South Korea and Taiwan. These established countries are the bedrock of Asian LNG. Their LNG demand is driven by the power generation sector and they continue to seek security of supply and diversification by fuel type.

Needless to say the longer term implications from last year's tragic events in Japan are still to be determined, but none would appear to diminish the likely demand for LNG, especially as debate on the role of nuclear power continues.

The second group is the growing Mega-markets of China and India. These markets are forecast to grow at 10% per annum, and could soon be as significant as the current Established markets

The third group is the Emerging markets of South-East Asia: countries like Singapore, Thailand, Vietnam and the Philippines. This group includes traditional LNG suppliers – Indonesia and Malaysia – becoming LNG buyers, as domestic demand grows and conventional reserves are declining.

We are already starting to see this play out.



This map of South East Asia shows existing and proposed regasification terminals, including floating regas which is fantastic technology.

In simple terms, floating regasificiation is where a LNG tanker unloads offshore directly onto a floating regasification vessel, connected by pipe to the onshore gas pipeline network. This floating technology has allowed LNG importing countries to bypass many of the community and planning issues associated with onshore regas terminals. In terms of start up time, we are talking around 2 years, compared with about 3 required to build a traditional, onshore regasification terminal.

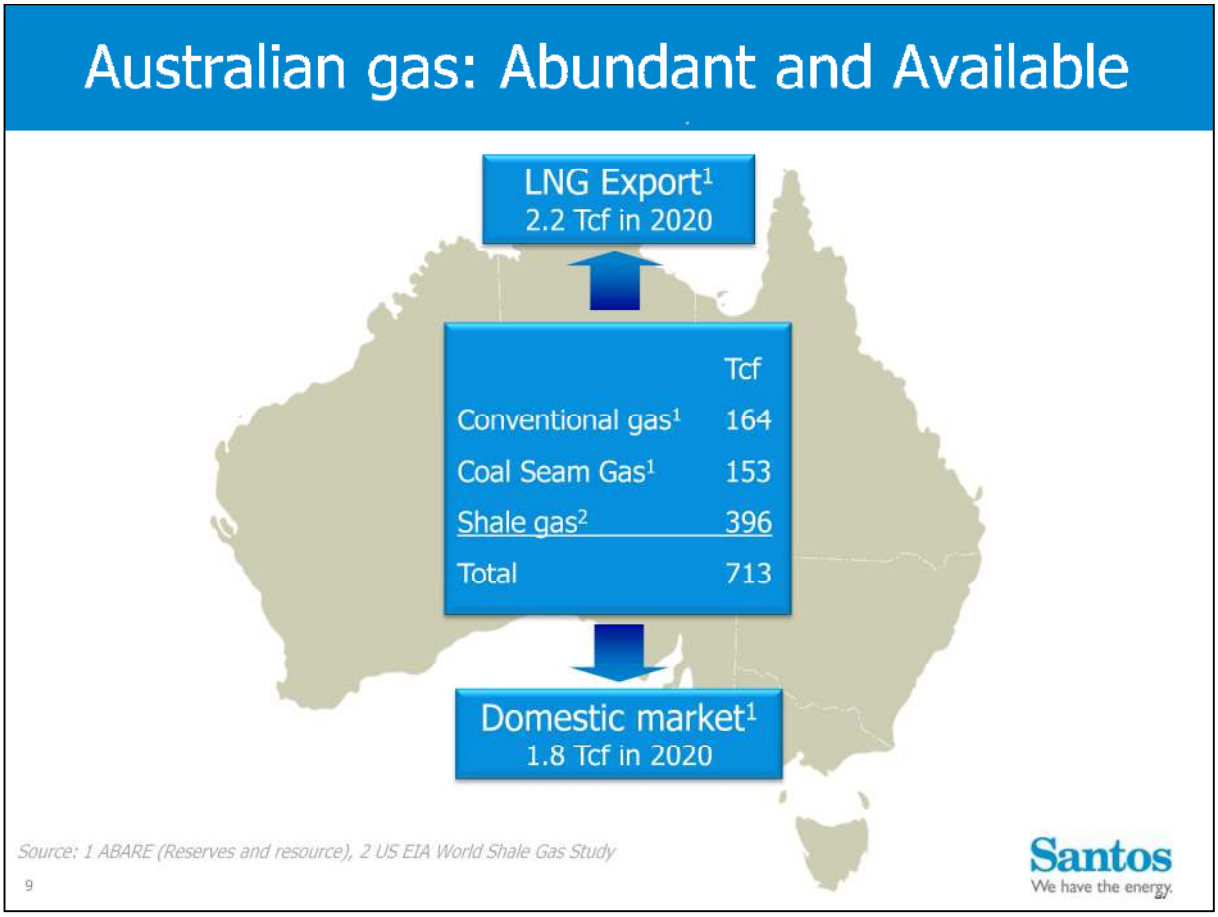
Thailand opened the region's first regas terminal in June last year. They are already fast tracking planned expansion of that facility.

Singapore, Malaysia and Indonesia all have regas terminals under construction.

• Malaysia has Sungai Udang Port in Melaka and another onshore facility at Pengerang in Johor that is awaiting final approval.

• Indonesia has its first regas terminal under construction at Jakarta Bay in West Java.

With 10mtpa of LNG already secured, South East Asia is showing signs of becoming a major importer of LNG. It is also worth noting that this same demand story is also driving domestic gas production and price reform within the region, but I will talk more about this later.



The quality of Australia's gas resources is the second important factor that we see.

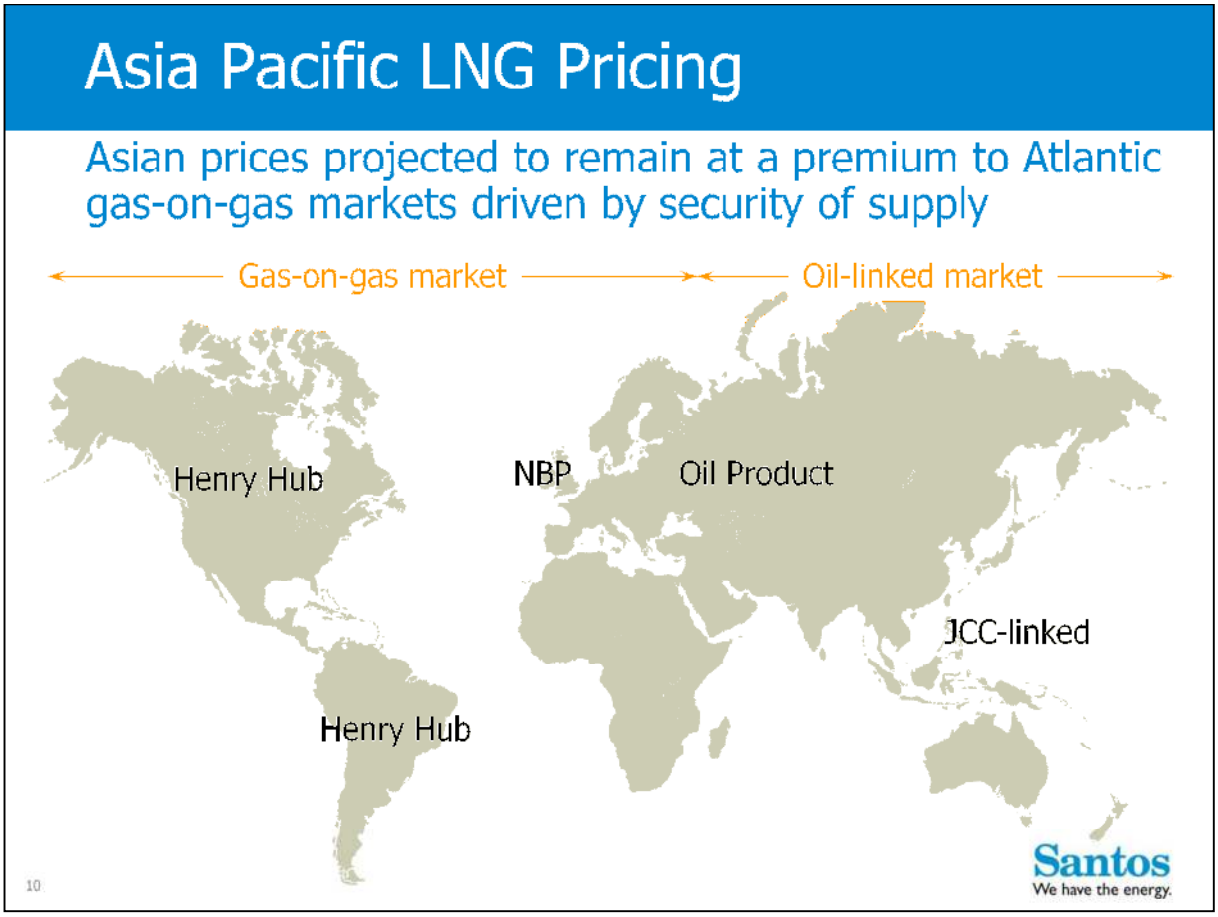
Australian resources will play a significant role in meeting Asian energy demand.

Australia is on the doorstep of Asia, but its not just its close proximity that makes it competitive.

According to government sources, Australia currently has an estimated 317 Tcf of conventional and Coal Seam Gas reserves and resources. Modest when compared to say Qatar or Russia. But let's consider Australia's domestic demand / supply equation:

Australia consumes about 1 Tcf of gas a year and exports about 1 Tcf a year. And by 2020, Australia's combined domestic and export demand is expected to double to approximately 4 Tcf per year. So Australia has around 80 years of known gas reserves and resources to support both domestic and export markets and this doesn't take into account the shale potential.

It is still early days for Australian shale, but the potential is huge, and the existence of a domestic gas and LNG export market will provide the encouragement for industry to explore the shale plays.



And so where are we?

• We see unprecedented Asian demand.

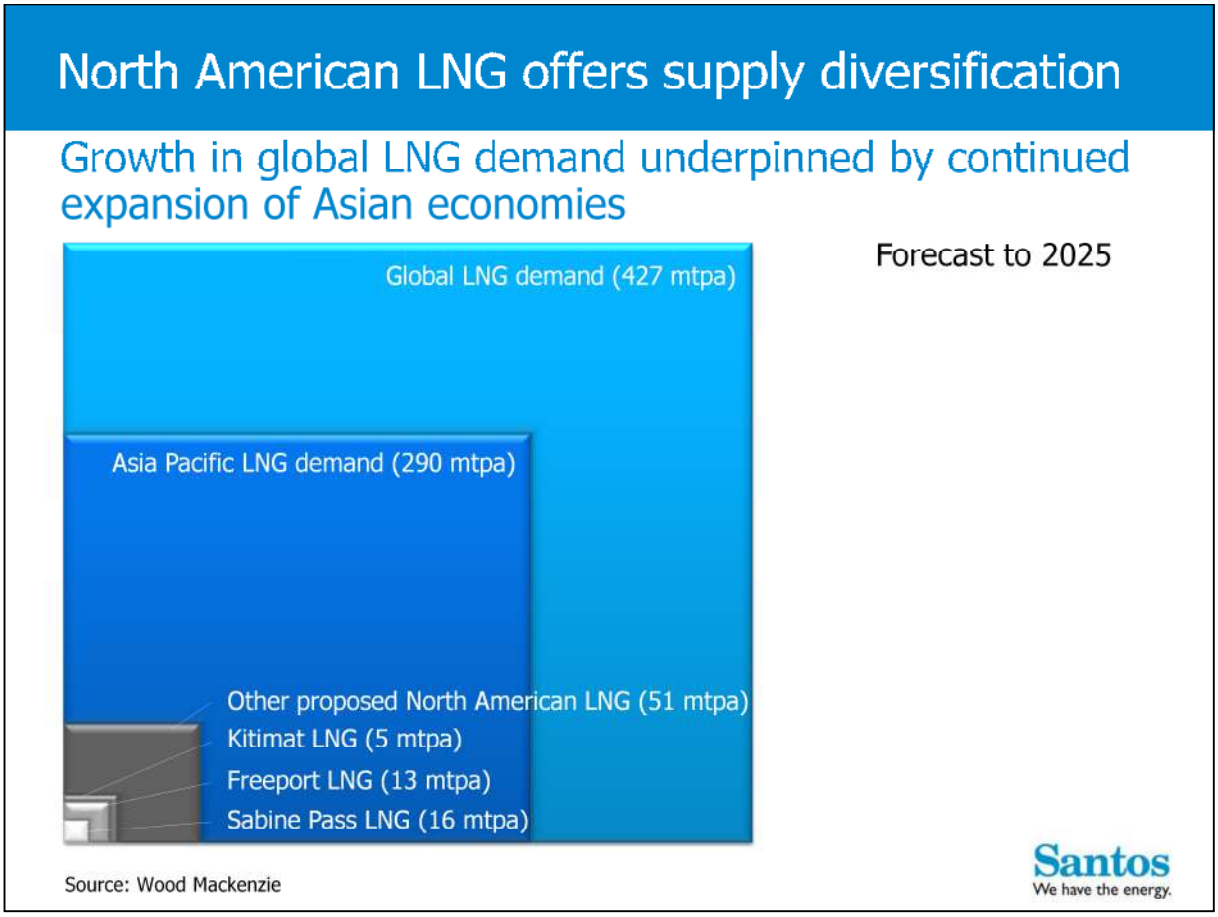
• We know that Australian gas is abundant and available.

• The third factor is price. You must have the right price to support the size and scale of Australian green field projects.

It has been the oil-linked pricing and the opportunity of equity participation for Asian buyers which has facilitated the scale and pace of development of Australian LNG projects. Oil-linked pricing in Asia has evolved over the last 40 years. It has worked because Asian buyers are comfortable that oil is an established, well understood and deeply liquid market.

Oil is often the alternative fuel for many LNG importing countries, so it makes sense to have the LNG price linked to the substitute fuel price. There is no global gas price that gives Asian buyers the same level of confidence and so we expect to see long-term oil-linked pricing into Asia.

Therefore whilst the number of global cargos will continue to grow, especially on the spot market, the Atlantic and Pacific basins will remain as two distinct gas hubs, driven by different markets.

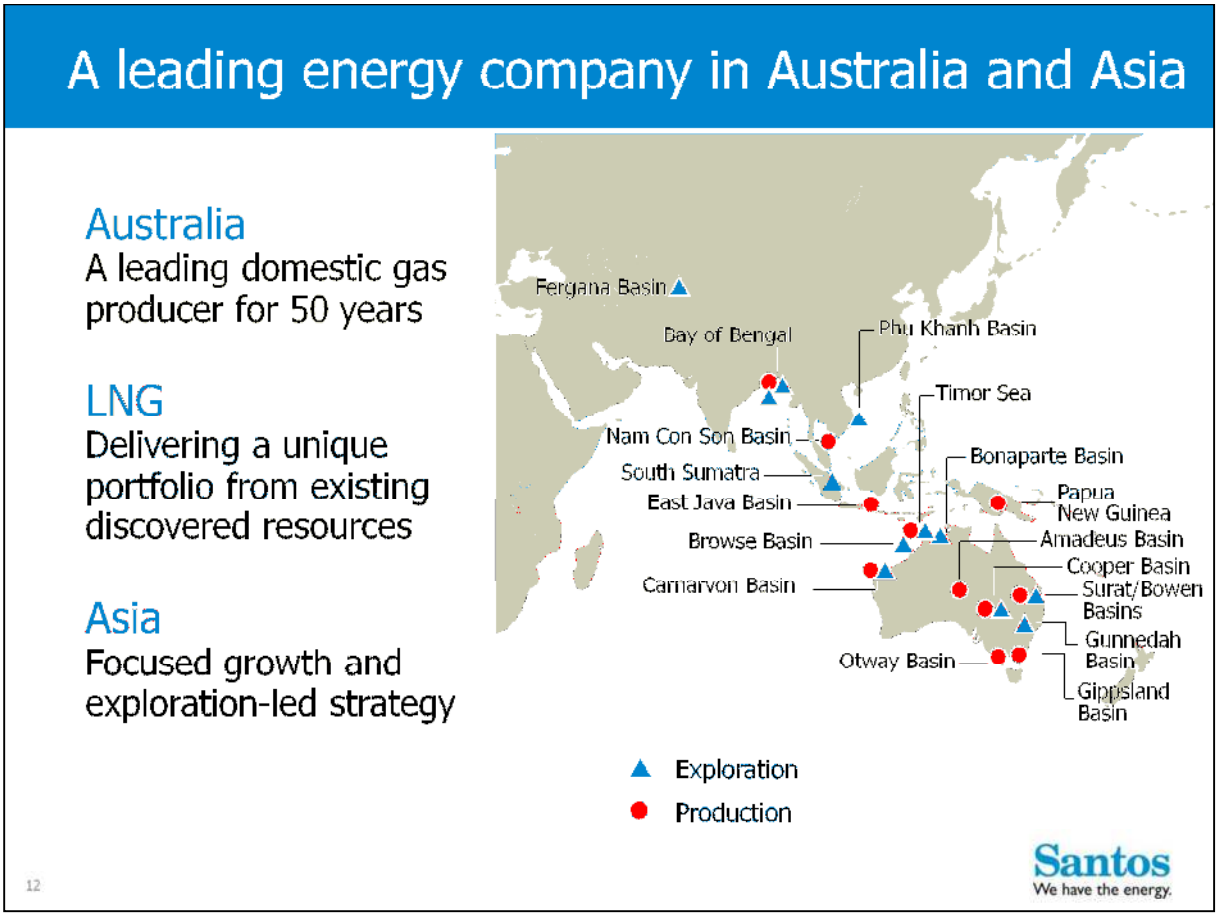


There has been a lot in the news recently about US shale gas exports into Asian oil-linked markets and we are often asked about the impact of LNG supplies from North America on Asian market dynamics and ultimately – Asia Pacific LNG Pricing. The debate has shifted from "IF" North American exports will happen to "HOW MUCH" and "WHEN". What I want to focus on is Demand. As you can see, forecast Global LNG demand is strong, and new supply sources will be required to meet the market.

Cheniere has been successful in securing offtake agreements of around 16 million tonnes per annum using a simple and easy to understand marketing structure. Gas will come from the existing, well connected US domestic market with prices linked to Henry Hub. The deals with KOGAS and Gail represent significant developments and appetite for new sources of supply. But it remains unclear:

- How much Henry Hub price risk Asian buyers will be willing to take into their portfolios?
- How much more LNG will come out of the US? And
- What volumes will be absorbed by portfolio players like BG?

Canadian Greenfield LNG projects will be very different again. They will face many of the same sort of challenges that we have in Australia. And so we anticipate pricing for Canadian LNG will need to reflect these realities. In our view, we see North American exports of 40 million tonner per annum is more likely, which is about 10% of Global LNG demand. So not a huge number when you look at it like this. But we are forgetting an important point here if we only focus on price. Buyers want supply diversification. Diversification gives buyers long term energy security. And so ultimately, LNG from all sources will have an important role to play in feeding growing global demand.



I'd like if I can to say a few words on how Santos fits into this picture.

• Australia:

• LNG; and

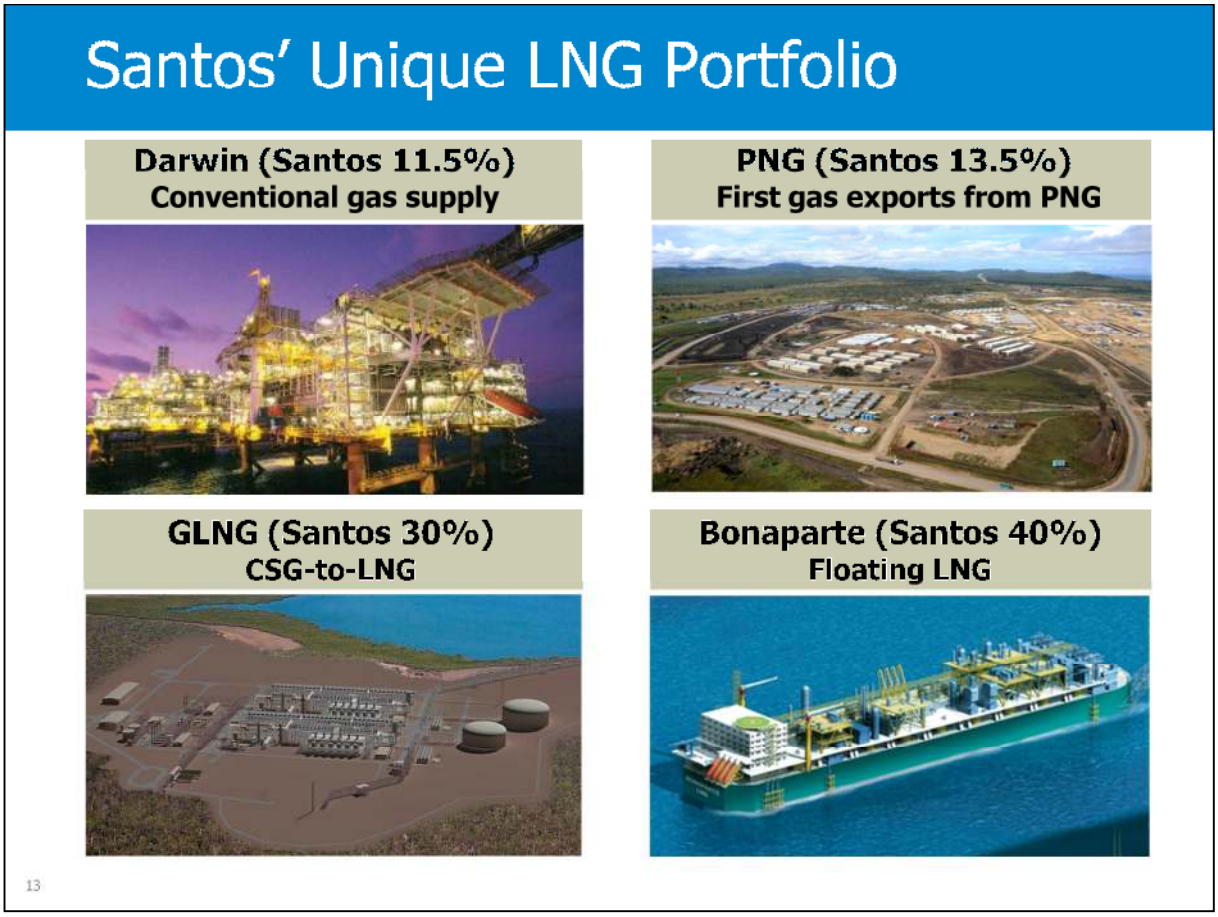
• Asia

It is on each of these three strategic pillars that Santos has constructed its strategy which is to:

• Safely deliver our Australian base business

• Grow our LNG business, and

•Thirdly, our Asian strategy, through focused growth, and exploration led success in countries that include Indonesia, Bangladesh and Vietnam.



Santos has equity stakes in 4 LNG projects:

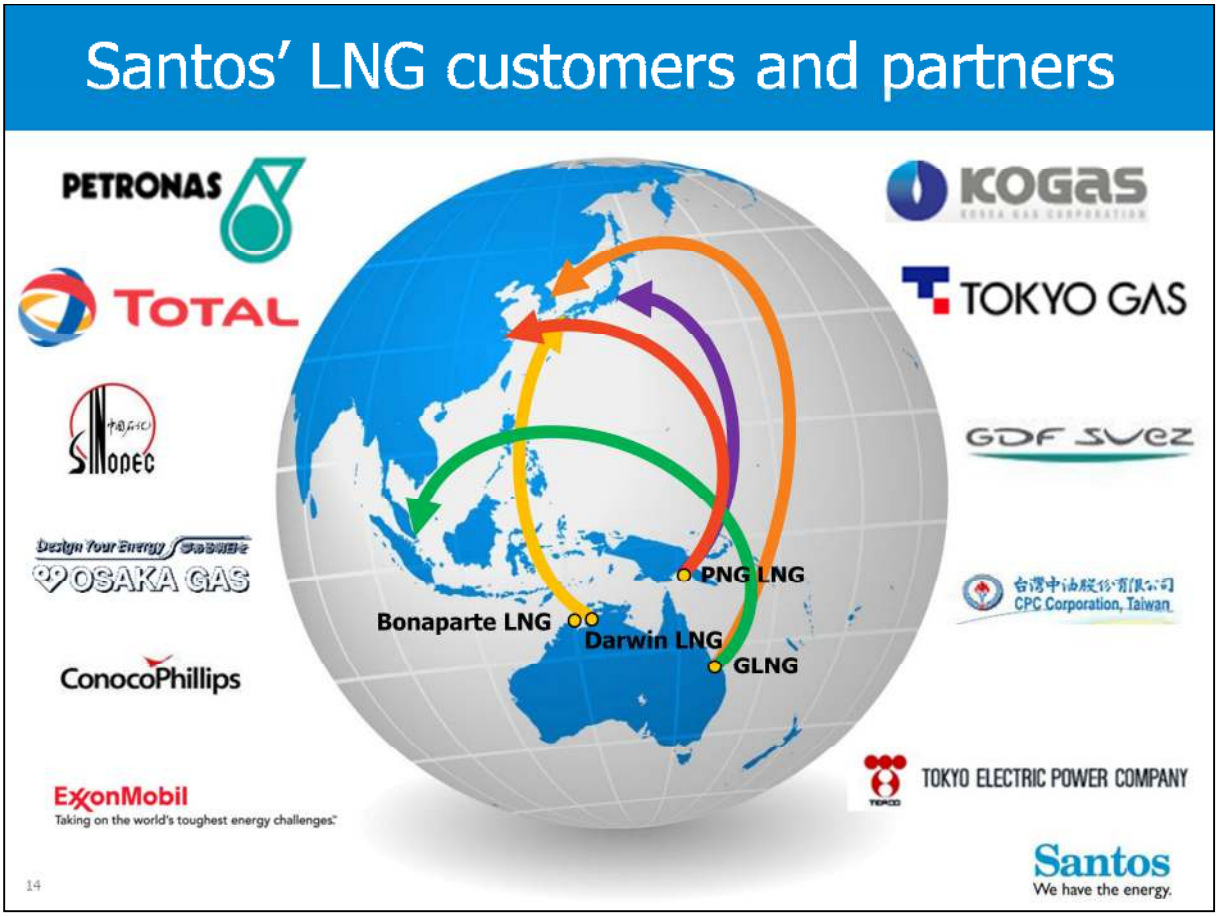
•The operational Darwin LNG project led by Conoco Phillips.

•The sanctioned PNG LNG project led by Exxon Mobil.

•The floating Bonaparte LNG project with our partners GDF Suez.

And of particular interest today is the 16 billion dollar - two train - Santos GLNG project in the state of Queensland. This plant will be fed by unconventional gas – that is coal seam gas.

These projects have only been made possible through our world class partners.



Darwin's output is sold under long-term contracts to Tokyo Electric and Tokyo Gas.

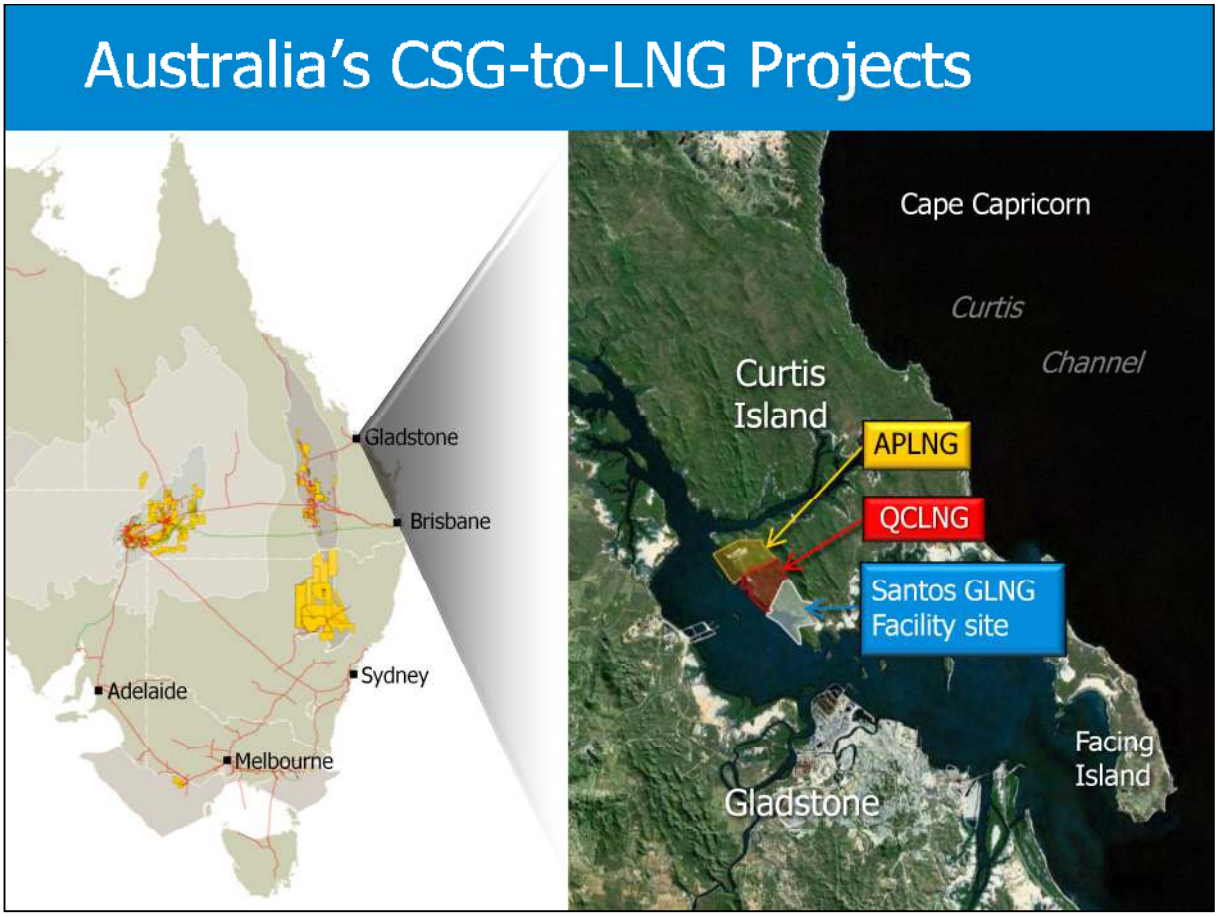
PNG LNG has signed similar long-term agreements with Tokyo Electric, Osaka Gas, Sinopec and CPC in Taiwan.

And GLNG has sold 7 million tonnes per annum to PETRONAS and KOGAS.

This means Santos has strong relationships with seven major Asian LNG customers.

Many of our customers are equity partners in the projects as well, demonstrating the importance of security of supply from Australian LNG.

I'd now like to look closer at Australia's CSG-to-LNG projects.



In 2007, Santos was first to announce plans for our pioneering CSG-to-LNG project. Along the way we have been joined by world class partners: Petronas, Total and KOGAS.

This map shows the location of Australia's CSG-to-LNG projects. All the plants are located on Curtis Island in the port of Gladstone in Queensland off the east coast of Australia.

Santos' GLNG site is coloured in blue and I have some photos that I will show you next.

The Santos GLNG project is a 7.8 million tonne per annum, two train liquefaction project. The plant is being designed and constructed by Bechtel.

One year into the project, construction of GLNG is progressing well. The budget is maintained at $16 billion from FID until the end of 2015 and I'm pleased to report that we're off to a good start and on schedule for first LNG in 2015.

More than 1800 people are working directly on GLNG.

Clearing of the LNG plant site on Curtis Island is now complete.

Bulk gas works are well advanced, and we've laid the first concrete for the Train 1 compressor foundations.

This photograph shows an aerial view of the GLNG site on Curtis Island.

Quickly, I would just like to very briefly take you through a few highlights from this site. As you look at the photograph, on the top left, that is where our LNG offloading jetty will be located.

Moving to the right, we'll have the tanks and then on the right hand side, at the top of the photograph, the two LNG trains. Moving down the photograph, is where you will find the location of the accommodation facilities, both for the construction and ultimately, the control room and the permanent accommodation.

On the left, you see the haul road, which goes to our material offloading facility on Hamilton Point.

What I would really like to point out is that wherever it has been possible, we've done everything we can to preserve the mangroves and the general, sort of, view of the site.

And I think this next slide makes this point very well.

See if you can spot one of our production wells in the distance?

At Santos we are committed to working alongside agriculture. This well in our Queensland operations is typical of the size of the footprint in which we would occupy. Wells typically operate in this condition for up to 20 years – during which time they require occasional access for monitoring and maintenance.

In Queensland, we have been producing coal seam gas for over 15 years – and our operations in that State are a great example of how of we can co-exist with local communities and look after the environment in which we operate.

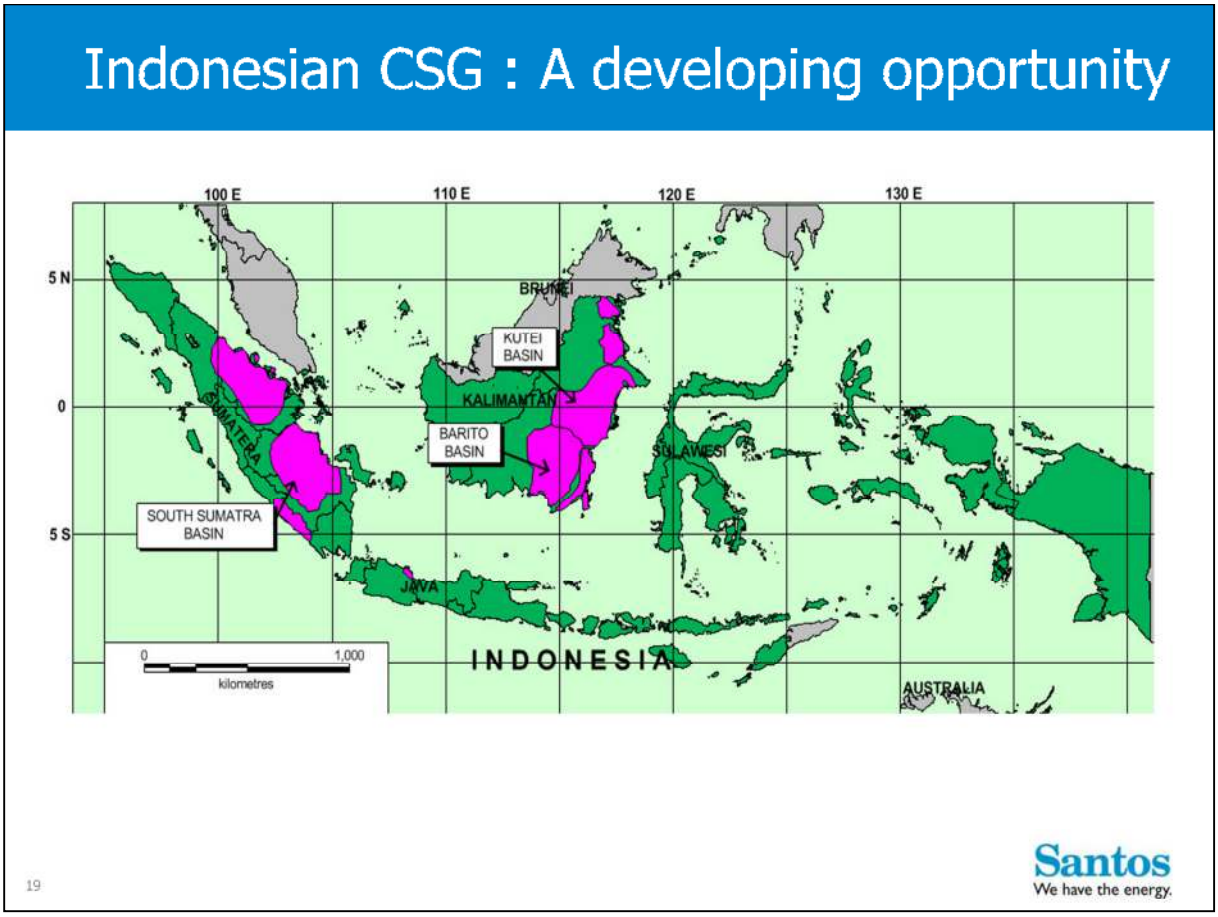
Coal seam gas is simply methane. So the liquefaction plant for producing LNG from conventional gas and CSG is essentially identical. The difference is that, for coal seam gas, more infrastructure is required upstream to gather and compress the natural gas before it reaches the liquefaction plant.

Advances in technology and innovation, such as horizontal drilling, and truck mounted drilling rigs have made accessing these resources technically and commercially possible.

One of the key advantages of CSG-to-LNG projects is due to the large number of wells in an onshore environment, which provides an inherently higher degree of gas feed stock reliability coupled with an opportunity to continually improve and reduce our cost and environmental footprint over time.

And of course there is the logistics of bringing a large number of wells into production ahead of the first shipments of LNG, then operating them for at least 20 years.

I'd now like to turn to an area that is close to my heart and that is Santos' coal seam gas opportunities in Indonesia.



As Indonesia's conventional oil and gas fields reach maturity and decline, the Indonesian government has high hopes for the transformational potential of its own CSG potential.

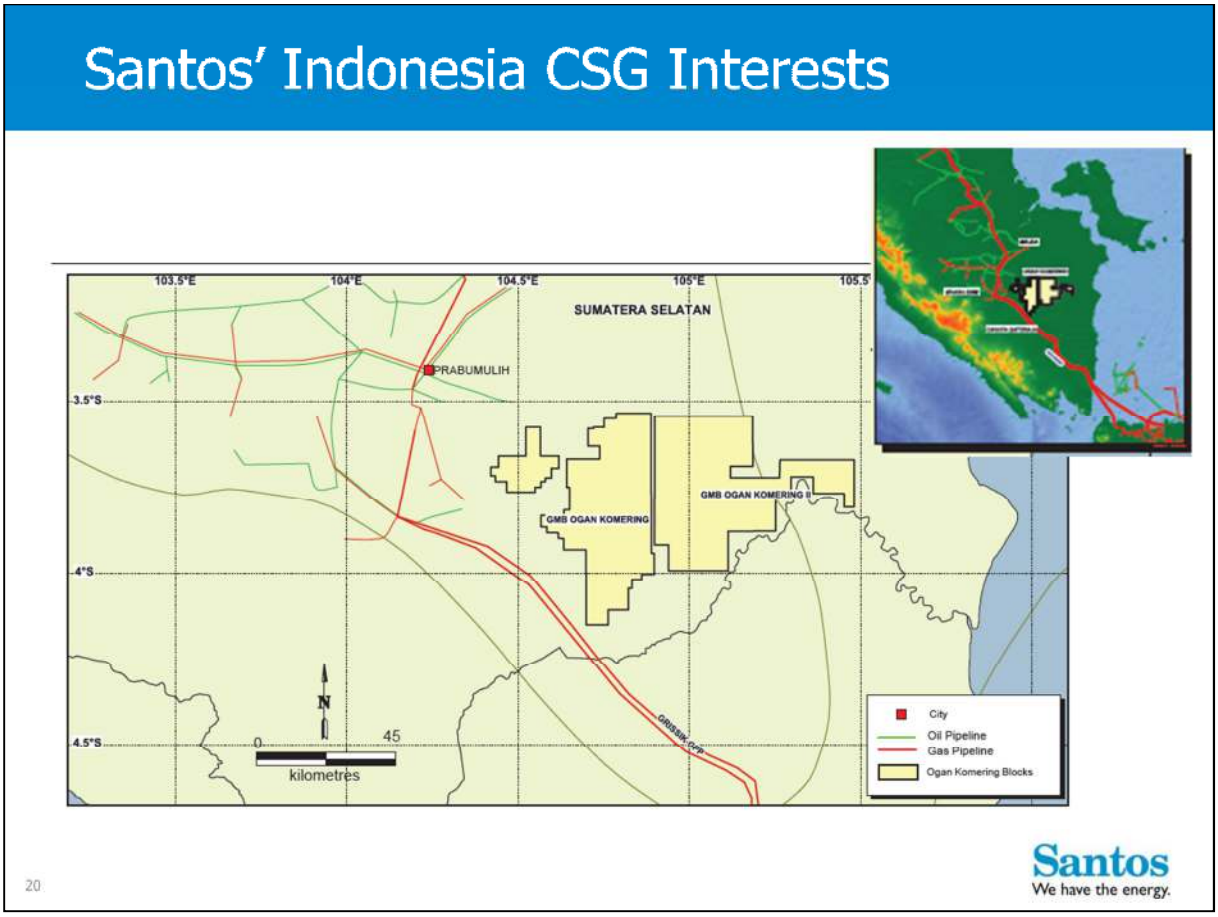
Although resource estimates vary, projections of potential CSG resources in Indonesia of 450 Tcf are common. The vast majority of the CSG resources are focussed in the three basins you can see on this map:

- South Sumatra
- Barito; and
- Kutei

Of these basins, only two: South Sumatra and the Kutei basin have developed gas markets and existing infrastructure.

The Government first issued CSG specific regulations in 2006, and the first CSG licence was issued in 2008. Since then approximately 40 CSG PSCs have been awarded, and we understand 4 licences are on production test.

Many of the world's largest oil and gas and CSG players are now present in Indonesia, including Exxon Mobil, Total, BP, ENI and of course Santos, which is a positive sign for the industry.



Indonesia has been a focus area for Santos since the early 1990s, with existing production coming from Maleo, Oyong and Wortel fields, in addition to the Peluang gas development which we aim to sanction later this year.

We view our entry into Indonesian CSG as a natural extension of our significant experience in the exploration, marketing, development, and production of CSG in Australia.

The CSG PSCs acquired by Santos are close to the existing, open access, South Sumatra to West Java gas pipeline, which feeds Indonesia's largest market, West Java. Our drilling program is progressing well and we expect to commence drilling in Q2 2012. And subject to results, we expect drilling to be ongoing for around 12 months.

In addition to the acquisition of the two CSG PSCs announced in August 2011, Santos has secured options over a number of other prospective CSG tenements in South Sumatra which are the subject of ongoing evaluation.

We are looking forward to the upcoming drilling program and to contributing to the development of this important industry

As you can see, Asia is a key part of the Santos vision and strategy, and will be supported by our new office in Singapore opened earlier this year.

As Asia continues to grow, Australian LNG will play a key role in providing our neighbours with a cleaner burning fuel that's both available and affordable.

Australia's pioneering CSG-to-LNG projects, including Santos' GLNG project, will add around 30 million tonnes of new LNG supply, and will contribute to providing Asian customers with long term energy security.

Much of the technology used in these pioneering projects will be applied to other unconventional gas plays, including Indonesia.

Now that I am based here in Singapore I look forward to exploring further opportunities in Asia and now hand you back to [……].

Santos
We have the energy.

Impact of unconventional gas on Australian LNG supply

Martyn Eames – Vice President Asia Pacific

6 March 2012

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